

PHISON



Phison Electronics Corporation 2021 ANNUAL REPORT

Annual Report is available in the following websites.
Taiwan Stock Exchange Market Observation Post System :
<http://mops.twse.com.tw>
Corporation Website : www.phison.com
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Zhunan Branch and Plant

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● **Name of the CPA who Audited the Financial Statements for the Most Recent Year, and the Name, Address and Telephone Number of the Accounting Firm**

Name of CPA: Chien Hui Lu, Wan Yuan Yu

CPA Firm: KPMG

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● **Name of Offshore Stock Exchange and Method for Accessing Information on Offshore Securities:**

None.

● **Website: www.phison.com**

Phison Electronics Corporation

2021 Annual Report

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Chapter 1

Letter to Shareholders



Chapter 1. Letter to Shareholders

Dear Shareholders,

In 2021, the global economic continued to be changed and adjusted for COVID-19 epidemic and Taiwan was same in aware. Also, the problem of lack of materials and parts still stick in various technology industries. Phison continues to develop new products to meet market needs through its technological leadership, so that Phison can still steadily growth in 2021. Thanks to the unremitting efforts of all Phison people, the combined total revenue for 2021 is approximately NT\$62.56 billion, the combined after-tax surplus is approximately NT\$8.15 billion, and the after-tax EPS is NT\$41.34.

In 2021, the company's overall shipments of SSD products and embedded memory related controllers and finished products accounted for 60% of the company's overall shipment, an increase of approximately 44% from the previous year. Phison is actively developing advanced UFS and PCIe SSD controllers to become the best choice for next-generation high-performance embedded and customized storage devices. The R&D team has also continued to invest in key IP development and process miniaturization, providing a newer and more complete product lineup, in order to meet the demand for NAND storage applications that are highly enhanced by the popularity of 5G wireless transmission.

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 3x4 NVMe specifications and the industry leading high-end PCIe Gen4x4 NVMe SSD controllers, to build a total solution for PCIe SSD controllers. In the high-end application/enterprise-level SSD application market, the company's customized enterprise-level SSD solution FX series and the world's highest-capacity enterprise-level QLC SSD storage solution have gradually been recognized by the market; in addition, Phison R&D center in Colorado, USA has continued to explore the functions to collaborate with our partners for products development and verification to serve 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 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 takes the lead in launching new controllers that support UFS3.2, especially with Phison's own technology, including StrongECC™, advance LDPC, CoXProcessor™ and RAID architecture. It not only provides low power consumption, but also demonstrates excellent error correction capabilities and SSD-like performance.

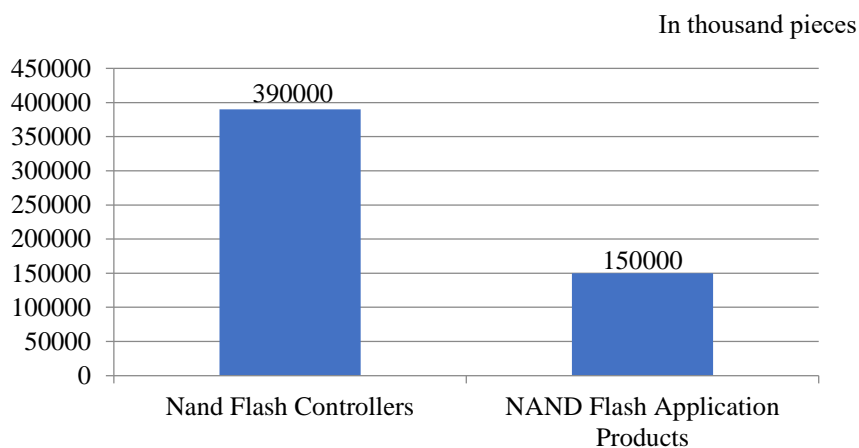
In terms of memory cards, the company released the latest SD & microSD card controller that is compatible with SD7.0 specifications. It has the absolute advantage of high-speed random access and provides up to 1TB data storage capacity. It is the industry's highest specification and is aimed at the high-definition analysis image application market. In terms of USB series products, Phison launched USB origin NAND controllers with USB 3.2 requirements for the needs of high-capacity portable storage applications.

The following products have been successfully developed and launched in 2021, including:

1. PS3117-S17T SATA III SSD controller is a DRAM_less version with a maximum support capacity of 4TB, which will meet the upgrade requirements of the PC DIY market.
2. PS5015-E15T is a PCIe Gen3 DRAM_less SSD controller with a maximum speed of 3300MB/s. The design of DRAM_less will also bring consumers a cost-effective experience.
3. PS5021-E21T PCIe Gen4 SSD controller, with a maximum support capacity of 4TB and a performance of 4800MB/s, is a product that meets the mainstream PC and mobile device markets.
4. The PS5017 SD card controller (complies with SD Express specification) not only meets the high-definition resolution of the pluggable storage application environment, but also brings a better experience for content creators.
5. The new-generation eMMC PS8232 controller is a low-power design, bringing an excellent power-saving experience to mobile devices and embedded systems.
6. The new-generation UFS 2.2/3.1 controller equipped with 12nm process not only supports the latest NAND technology, but also provides new ultra-high-speed performance for high-end portable devices to meet the trend of 5G wireless transmission.
7. Developed a high-capacity USB3.2 Gen2x2 PS2251-18 controller that supports high-speed random write to meet the massive data transmission needs of the high-resolution audio and video market such as content creators.
8. Launched the FIPS-compliant USB controller PS2251-15 to meet the encryption demand market driven by digital transformation.
9. For more advanced process, developed next-generation PCIe PHY, and continue to deploy IP licensing field.
10. Developed a new generation of error correction modules to support high-layer 3D TLC/QLC and next-generation PLC NAND flash memory.

11. Developed smaller controller solutions with higher capacity support and more power efficiency, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, as well as meet the high-speed storage needs of mobile devices.
12. Developed controllers that meet automotive specifications and passed various automotive regulatory certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the needs of the automotive electronics market.

In 2022, the Company plans to supplement and expand R&D personnel to 2,500 people approximately. The estimated shipment of major products in 2022 years is as follows:



According to the analysis of market demand trend, industry competition strategy, Phison plan to continuously upgrade current product line and develop new products as follows in 2022:

1. The PS5025-E25 controller is a PCIe Gen4 SSD with an external DRAM design and a maximum performance of 7200MB/s, which is the best choice for extremely fast gamers.
2. The PS5020-E20 PCIe Gen4 enterprise SSD controller will have a maximum support capacity of 32TB and support special functions in enterprise-grade applications. It will be the most suitable choice for server system integrators.
3. The performance of new gen. PS5026-E26 PCIe Gen5 SSD controller will reach 13000MB/s, and it will be a flagship product in the PC market.
4. Continue to develop high-end enterprise-class SSD, support higher capacity, higher speed and strengthen interface protection mechanism, and cooperate with strategic partners to jointly develop to meet the needs of enterprise-class storage market.
5. Continue to develop smaller, higher-capacity and more power-saving controller solutions, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, as well as meet the high-speed storage needs of future mobile devices.
6. Continue to develop controllers that meet the automotive specifications, and continue to strengthen the certification of various automotive regulations, such as higher specifications of AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the rising demand for automotive electronics.

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

Cheek Kong Aw Yong, 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

Chapter 3

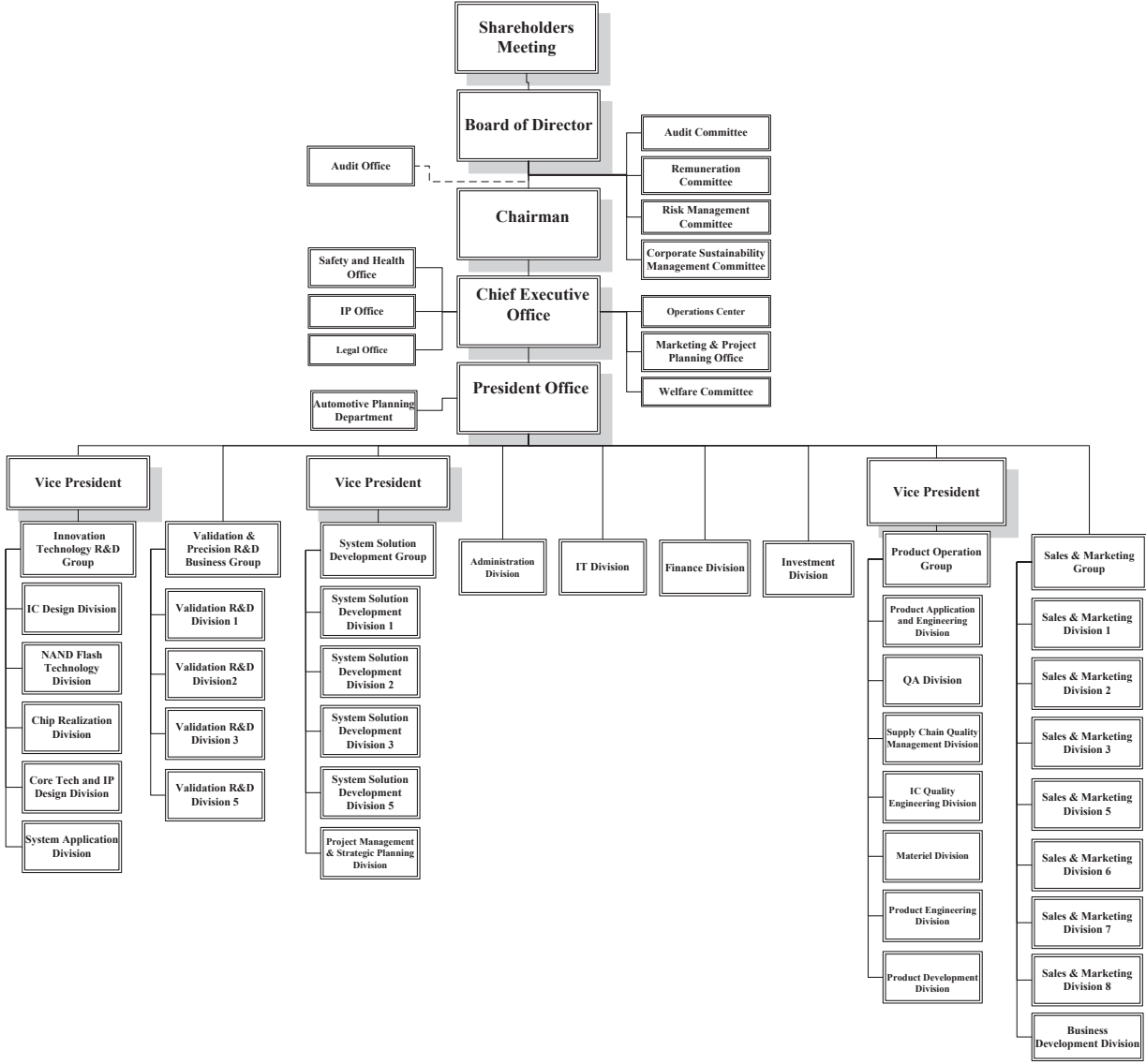
Corporate Governance Report



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.
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	Responsible for the handling and review of all contract, insurance, legal proceedings and other related matters of the Company.
Operation Center	Responsible for formulating product pricing strategy, coordinating product production and key suppliers, and managing the usage of the company's inventory.
Marketing & Project Planning Office	Responsible for market research and analysis, development strategy and marketing planning, supervision and execution.
Welfare Committee	Responsible for the planning, execution and operation of activities related to employee benefits, etc.
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.
Innovative Technology R & D Group and System Product R & D Group and Validation & Precision R & D Business Group	Responsible for product specification confirmation and product technical feasibility assessment in cooperation with the marketing business group, product software, corpus and hardware development and design works; completing new product design and validation and project plan execution, and responsible for managing and supervising chip back-end design outsourcing.
Sales and Marketing Group	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

Major Departments	Main Duties of Each Department
	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 Office	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 26, 2021; 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 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		
Chairman	Taiwan	Chenghe Investment Co., Ltd.	-	2020.06.03	3years	2020.06.03	2,172,000	1.10	2,383,000	1.21	-	-	-	-	N/A	N/A	N/A	N/A	N/A	NIL	
	Malaysia	Represented by: Wee Kuan Gan (Note8)	Male 41-50	2021.11.18		2021.11.18	64,052	0.03	64,052	0.03	5,451	0.00	-	-	Department of Electronics and Electrical Engineering, National Yang Ming Chiao Tung University	Note 2	N/A	N/A	N/A	N/A	NIL
Chairman	Malaysia	Khein Seng Pua (Note7)	Male 41-50	2020.06.03	3years	2000.10.24	4,557,972	2.31	4,557,972	2.31	806,262	0.41	4,754,144	2.41	Founder of Phison Electronics Corp. and Master's Degree in Electrical and Control Engineering, National Yang Ming Chiao Tung University	Note 3	N/A	N/A	N/A	N/A	NIL
Director	Malaysia	Chee Kong Aw Yong	Male 41-50	2020.06.03	3years	2002.02.15	3,409,745	1.73	3,463,745	1.76	36,000	0.02	258,000	0.13	Founder of Phison Electronics Corp. and Master's Degree in Electrical and Control Engineering, National Yang Ming Chiao Tung University	Note 4	N/A	N/A	N/A	N/A	NIL
Director	Taiwan	Chenghe Investment Co., Ltd.	-	2020.06.03	3years	2020.06.03	2,172,000	1.10	2,383,000	1.21	-	-	-	-	N/A	N/A	N/A	N/A	N/A	NIL	
	Taiwan	Representative: Chih Jen Hsu (Note8)	Male 51-60	2020.06.03	3years	2011.06.15	1,020,301	0.52	1,020,301	0.52	-	-	-	-	Chung Yuan Christian University Department of Information and Computer Engineering - Winbond Electronics Corporation Deputy Manager Founder of Phison Electronics Corp.	Vice President of Phison Electronics Corp.	N/A	N/A	N/A	N/A	NIL
Director	Taiwan	Tzung Horng Kuang	Male 51-60	2020.06.03	3years	2008.06.13	1,408,736	0.71	1,413,736	0.72	-	-	-	-	Master of Business Administration, Greenwich University Kogen Singapore Pte Ltd	Note 5	N/A	N/A	N/A	N/A	NIL
Director	Japan	KIOXIA Corporation	-	2020.06.03	3years	2017.09.27	19,821,112	10.06	19,821,112	10.06	-	-	1,000	0.00	N/A	Note 6	N/A	N/A	N/A	N/A	NIL
	Japan	Representative: Hiroshi Miyauchi	Male 61-70	2020.11.13	3years	2020.11.13	-	-	-	-	-	-	-	-	Bachelor of Science in Electro-Communications, University of Electro-Communications Part time contract with KIOXIA Corporation	Part time contract with Toshiba Material Co., Ltd., Director of Property Management of Toshiba Co., Ltd.	N/A	N/A	N/A	N/A	NIL
Director	Taiwan	Yang Jiunn Yeong	Male	2020.06.03	3years	2011.06.15	4,549,114	2.31	4,549,114	2.31	-	-	-	-	Postdoctoral Researcher,	N/A	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 (Note1)
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
			51-60											Institute of Electrical and Control Engineering, National Chiao Tung University Founder of Phison Electronics Corp.						
Independent Director	Taiwan	Wang Chen-Wei	Male 61-70	2020.06.03	3years	2014.06.17	-	-	-	-	-	-	-	Department of Electronic Engineering, National Yang Ming Chiao Tung University CEO, Quanta Computer Inc. President, Quanta Computer Inc.	Independent Director of Simplo Technology Co., Ltd. and Innolux Corporation	N/A	N/A	N/A	NIL	
Independent Director	Taiwan	Chung Wen Chiu	Female 51-60	2020.06.03	3years	2020.06.03	-	-	-	-	-	-	-	M.S. in Accounting, Chung Yuan Christian University Auditor of Grant Thornton Taiwan Accountant of Grant Thornton Taiwan	Director of Xu Yuan Packaging Technology Co., Ltd.	N/A	N/A	N/A	NIL	
Independent Director	Taiwan	Huang Yu Lun	Female 41-50	2020.06.03	3years	2020.06.03	-	-	-	-	-	-	-	Ph.D., Department of Computer Science, National Yang Ming Chiao Tung University	Associate Professor, Department of Electrical Engineering, Associate Dean of Academic Affairs, National Yang Ming Chiao Tung University, Taiwan Open Course and Education Consortium Consultant	N/A	N/A	N/A	NIL	

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.

Note 2: Deputy General Manager of Phison Electronics Corp.; Representative Director of Ostek Corp., Super Storage Technology Corp.; Representative Supervisor of Phisontech Electronics Taiwan Corp.

Note 3: CEO of Phison Electronics Corp.; Legal Representative Director and Chairman of Lianxudong Investment Corp., Ostek Corp., Phisontech Electronics Taiwan Corp.; Legal Representative Director of Emtops Electronics Corp.; Director of Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited.

Note 4: General Manager of Phison Electronics Co.; Legal Representative Director and Chairman of Super Storage Technology Co.; Representative Director of Lianxudong Investment Co. and Phisontech Taiwan Electronics Co.; Directors of Global Flash Limited and Core Storage Electronic (Samoa) Limited.

Note 5: Legal Representative Director and Chairman of Emtops Electronics Corp.; Legal Representative Director of Microtops Design Corp., Ostek Corp.; Director of Phison Electronics Japan Corp., Power Flash (Samoa) Limited.

Note 6: Directors of KIOXIA Semiconductor Taiwan Corp., KIOXIA Taiwan Corp., Microtops Design Corp., Solid State System Co., Ltd.

Note 7: Mr. Khein Seng Pua resigned as Chairman and Director on November 18th, 2021 due to personal factors.

Note 8: Chenghe Investment Co., Ltd. reassigned the director of the legal representative on November 18, 2021, and Mr. Chih Jen Hsu, the director of the original legal representative, was reassigned to Mr. Wee Kuan Gan on the same day, the Board of Directors elected Mr. Wee Kuan Gan, the representative of Chenghe Investment Co., Ltd., as the new chairman.

3.2.1.2 Major shareholders of the institutional shareholders

March 26th, 2022

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%

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

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%

Note: The above information is obtained from the official website of Kioxia Holdings Corporation and represents the proportion of voting shares of the company as of August 27, 2020. Official website: kioxia-holdings.com/en-jp/about/company.html

3.2.1.4 Disclosure of Directors' Professional Qualifications and Independent Directors'

Independence Information:

Name Criteria	Professional Qualification and Work Experience (Note1)	Independence Situation (Note 2)	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
Representative of Chenghe Investment Co., Ltd. Wee Kuan Gan	Mr. Wee Kuan Gan, now Deputy General Manager 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
Chee Kong Aw Yong	Mr. Chee Kong Aw Yong is now the Deputy General Manager of Phison Electronics Corp. and is one of the founders of Phison Electronics Corp. He has experience in management, research and development, innovation and other related work 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
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 KIOXIA Corporation Hiroshi Miyachi	Mr. Hiroshi Miyachi, 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
Yang JiunnYeong	Mr. Yang Jiunn Yeong, 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
Chung Wen Chiu	Ms. Chung Wen Chiu, who is a graduate of the Accounting Department of the Chung Yuan Christian University, has practiced	1. Whether independent directors themselves, their spouses, their relatives within the second degree of kinship act as	N/A

Name	Criteria	Professional Qualification and Work Experience (Note1)	Independence Situation (Note 2)	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
		in an accounting firm and has extensive knowledge of finance, accounting and taxation. She is now the convener of the Company's Audit Committee and the Remuneration Committee. She 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.	directors, supervisors or employees of the Company or its affiliated enterprises: None. 2. Number and proportion of shares of the 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. 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.	
Wang Chen Wei		Mr. Wang Chen Wei, graduated from the Department of Electronic Engineering of 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 Innolux Corp. and Simplo Technology Co., Ltd. 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.		2
Huang Yu Lun		Ms. Huang Yu Lun holds a Ph.D. in the Information Engineering Department of National Yang Ming Chiao Tung University and has served 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 Sustainability		N/A

Name	Criteria	Professional Qualification and Work Experience (Note1)	Independence Situation (Note 2)	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
		Management Committee of the Company, and declares that she does not have any of the provisions of Article 30 of the Company Law.		

Note 1: Professional qualifications and experience: Identify the professional qualifications and experience of individual directors and supervisors. If a person is a member of the Audit Committee and has accounting or financial expertise, he or she should disclose his or her accounting or financial background and work experience, and also state whether they are under the provisions of Article 30 of the Company Law.

Note 2: Independent directors should clarify whether they are independent, including but not limited to whether themselves, their spouses, their relatives within the second degree of kinship within the scope of the company or its affiliated enterprises are directors, supervisors or employees of the company; whether themselves, their spouses, their relatives within the second degree of kinship within the scope of the company (or in the name of another person) hold the number and proportion of shares of the company; whether they are directors, supervisors or employees of companies with specific relationships with the company (see Article 3, Paragraph 1, Subparagraph 5~8 of the Regulations on the Establishment of Independent Directors of Public Companies and Matters to be Followed); and the amount of remuneration received for providing business, legal, financial, accounting and other services of the company or its affiliated enterprises in the last 2 years.

3.2.1.5 Board Diversity and Independence:

In the Code of Practice on Corporate Governance, the Company stipulates that the composition of the Board of Directors shall be diversified and shall not be restricted by sex, race or nationality. In addition to having the knowledge, skills and abilities necessary for the performance of duties, the overall ability of the Board of Directors to achieve the ideal goal of corporate governance shall include: 1. Operational judgment. 2. Accounting and financial analysis capacity. 3. Operational management capabilities. 4. Crisis management capabilities. 5. Industry knowledge. 6. Global market viewpoint 7. Leadership. 8. Diversified professional background such as decision-making ability. There are eight current directors, including three independent directors, two female directors and three employee directors (representing 37.5%, 25% and 37.5% of all directors, respectively), and the Company will set 20% of female directors as target. As of the end of the 2021, there were three directors aged 41-50 years, and three other directors aged 51-60 years, all of whom were over 60 years old. Among them, independent directors met the specifications of the Financial Services Commission and the Securities and Exchange Commission, and there were no matters stipulated in Paragraphs 3 and 4 of Article 26 of the Securities and Exchange Act. Please refer to the information on the education, gender, professional qualifications, work experience and diversity of each director. Please refer to the information on Profile of Directors and supervisors in 3.2.1 of the Corporate Governance Report and the following table.

Diversified Core Competences Name of Directors		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								
Chairman	Wee Kuan Gan Representative of Chenghe Investment Co., Ltd.	Malaysia	Male	✓				✓		✓	✓	✓	✓	✓	✓
Director	Chee Kong Aw Yong	Malaysia	Male	✓				✓	✓	✓	✓	✓	✓	✓	✓
Director	Tzung Horng Kuang	Taiwan	Male	✓				✓		✓	✓	✓	✓	✓	✓
Director	Yang JiunnYeong	Taiwan	Male					✓			✓	✓			✓
Director	Hiroshi Miyauchi (Representative of KIOXIA Corporation)	Japan	Male					✓		✓		✓	✓	✓	✓
Independent Director	Chung Wen Chiu	Taiwan	Female		✓				✓	✓		✓	✓	✓	✓
Independent Director	Wang Chen Wei	Taiwan	Male			✓		✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Huang Yu Lun	Taiwan	Female		✓					✓	✓	✓		✓	✓

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

Date: March 26th, 2022

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			Manager's acquisition of employee stock option certificates	Remarks (Note1)
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship		
CEO	Malaysia	Khein Seng Pua	Male	2008.10.01	4,557,972	2.31	806,262	0.41	4,754,144	2.41	Founder of Phison Electronics Corp., Master's Degree in Motor and Control Engineering, National Yang Ming Chiao Tung University	Note 2	N/A	N/A	N/A	Note 10	NIL Circumstances
General Manager	Malaysia	Chee Kong Aw Yong	Male	2008.10.01	3,463,745	1.76	36,000	0.02	258,000	0.13	Founder of Phison Electronics Corp., Master's Degree in Motor and Control Engineering, National Yang Ming Chiao Tung University	Note 3	N/A	N/A	N/A	Note 10	NIL Circumstances
Vice President of Technology	Taiwan	Chih Jen Hsu	Male	2012.08.01	1,020,301	0.52	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 Corp.	N/A	N/A	N/A	N/A	Note 10	NIL Circumstances
Deputy General Manager	Malaysia	Wee Kuan Gan	Male	2012.02.24	64,052	0.03	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	Note 10	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			Manager's acquisition of employee stock option certificates	Remarks (Note1)
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship		
Deputy General Manager	Taiwan	Kuo Yi Cheng	Male	2022.03.01	19,134	0.01	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	Note 10	NIL Circumstances
Deputy General Manager	Taiwan	Ma Zhong Xun	Male	2012.08.01	0	0.00	0	0.00	0	0.00	Master's Degree, Department of Physics, National Central University Deputy General Manager of Ji Yuan Technology Corp.	Note 6	N/A	N/A	N/A	Note 10	NIL Circumstances
Director	Taiwan	Hsiu Chin Liu	Female	2009.10.31	18,427	0.01	0	0.00	0	0.00	B.S. of Department of Finance Management, Chung Hua University Specialist of Silicon Motion Inc. Specialist of Advanced Scientific Corp.	N/A	N/A	N/A	N/A	Note 10	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			Manager's acquisition of employee stock option certificates	Remarks (Note1)
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship		
Senior Director	Taiwan	Huei Chen Tsay	Female	2012.02.24	9,701	0.00	169	0.00	0	0.00	B.S. of Department of Automatic Control Engineering, Feng Chia University University of Exeter, UK, MBA in International Management Teaching Assistant, Department of Automatic Control Engineering, Feng Chia University Tripod Technology Corp. Vice Director of Sales Department	Note 7	N/A	N/A	N/A	Note 10	NIL Circumstances
Director	Taiwan	Li Fu Huang	Male	2019.11.11	0	0.00	0	0.00	0	0.00	Master of Arts and Sciences, Columbia University Etron Technology, Inc. Sumitomo Corporation	N/A	N/A	N/A	N/A	Note 10	NIL Circumstances
Senior Branch Director and Investment Director	Taiwan	Shu Hua Chiu	Female	2012.12.01	0	0.00	0	0.00	0	0.00	B.S. of Department of Economics, National Central University Vice Assistant Officer of Deloitte & Touch CPAs	Note 8	N/A	N/A	N/A	Note 10	NIL Circumstances
Director	Taiwan	Pao Feng Chen	Female	2020.03.27	0	0.00	0	0.00	0	0.00	University of Wales Master's Degree in E-commerce Management Senior manager of Phison Electronics Corp.	N/A	N/A	N/A	N/A	Note 10	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			Manager's acquisition of employee stock option certificates	Remarks (Note1)
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship		
Senior Special Assistant and Chief Operating Officer	Taiwan	Zhi Chyang Yu	Male	2021.02.06	0	0.00	0	0.00	0	0.00	M.S. of Risk Management, National Chengchi University National Union Electronics Legal Director	Note 9	N/A	N/A	N/A	Note 10	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., Ostek Corp., Phisontech Electronics Taiwan Corp.; Legal Representative Director of Emtops Electronics Corp.; Director of Global Flash Limited, EpoStar Electronics (BVI) Corporation, and Core Storage Electronic (Samoa) Limited.

Note 3: Legal Representative Director and Chairman of Super Storage Technology Corp.; Representative Director of Lianxudong Investment Co.. and Phisontech Taiwan Electronics Co.; Director of Global Flash Limited and Core Storage Electronic (Samoa) Limited.

Note 4: Legal Representative Director of Ostek Corp., Super Storage Technology Corp.; Legal Representative Supervisor of Phisontech Taiwan Electronics Co..

Note 5: Legal Representative of Hefei Ruhan Electronic Technology Co..

Note 6: Supervisor of Microtops Design Corp.; Director of the Legal Representative of Emtops Electronics Corp..

Note 7: Director of Power Flash (HK) Limited.

Note 8: Representative Director of Phisontech Electronics Taiwan Co..

Note 9: Legal Representative Supervisor of Emtops Electronics Corp..

Note 10: For information on employee stock options issued by the Company, please refer to pages 135-136 of this annual report. As of the date of publication of this year's report, no manager has obtained employee's stock option certificates.

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

3.3.1 Remuneration of Directors and Independent Directors

Unit: Thousands NTD

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) (Note1)		Business Execution Expenses (D)				Salaries, Bonuses and Special Expenses, etc. (E) (Note 6)		Severance and Retirement Pension (F) (Note3)		Employee Compensation (G) (Note1)								
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company.	Companies in the consolidated financial statements	The Company.	Companies in the consolidated financial statements	The Company.	Companies in the consolidated financial statements	The Company.	Companies in the consolidated financial statements	The Company.	Companies in the consolidated financial statements	The Company.	Companies in the consolidated financial statements	The Company		Companies in the consolidated financial statements			The Company	Companies in the consolidated financial statements
																		Cash Amount	Stock Amount	Cash Amount	Stock Amount			
Director (Note4)	Khein Seng Pua																							
Director	Chee Kong Aw Yong																							
Director	Tzung Horng Kuang																							
Director (Note5)	Chenghe Investment Co., Ltd.	0	0	0	0	35,000	35,000	0	0	35,000 0.43%	35,000 0.43%	224,431	224,431	369	369	50,000	0	50,000	0	309,800 3.80%	309,800 3.80%	N/A		
	Chenghe Investment Co., Ltd. Representative : Chih Jen Hsu																							
	Chenghe Investment Co., Ltd. Represented by: Wee Kuan Gan																							
Director	Yang Jiunn Yeong																							
Director	KIOXIA Corporation																							
	KIOXIA Corporation Representative : Hiroshi Miyauchi																							
Independent Director	Wang Chen-Wei																							
Independent Director	Cung Wen-Chiu	0	0	0	0	15,000	15,000	0	0	15,000 0.18%	15,000 0.18%	0	0	0	0	0	0	0	0	15,000 0.18%	15,000 0.18%	N/A		
Independent Director	Huang Yu-Lun																							

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 Company Association, 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

Title	Name	Remuneration Paid to Directors	Total amount of A, B, C and D and percentage of net income after tax	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	Remuneration from Invested Companies
of the Remuneration Committee and the Board of Directors.						
1. 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 4th, 2021, the Board of Directors resolved to allocate a total of NT \$1,100,000 thousand in employee remuneration and NT \$50,000 thousand in directors' remuneration for the year.

Note 2: Net income after tax refers to the net income after tax in individual financial statements of NT \$8,147,215 thousand in the 2021 annual financial report.

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

Note 4: Mr. Khein Seng Pua resigned as Chairman and Director on November 18, 2021 due to personal factors.

Note 5: Chenghe Investment Co., Ltd. reassigned the director of the legal representative on November 18, 2021, and Mr. Chih Jen Hsu, the director of the original legal representative, was reassigned to Mr. Wee Kuan Gan, On the same day, the board of directors elected Mr. Wee Kuan Gan, the representative of Chenghe Investment Co., Ltd. as the new chairman.

Note 6: Refers to the actual provision of salaries, job premiums, severance pay, various bonuses, incentives, travel expenses, special expenses, various allowances, 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.

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 (H)	The Company	Companies in the consolidated financial statements (I)
Less than NT\$1,000,000	0	0	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	0	0	0	0
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	0	0	0	0
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang, Chenghe Investment Co., Ltd. Representative: Chih Jen Hsu/Representative: Wee Kuan Gan, Kioxia Corporation, Yang Jiunn-Yeong, Wang Chen-Wei, Chung Wen-Chiu, Huang Yu-Lun		Chenghe Investment Co., Ltd. Represented by: Wee Kuan Gan, Kioxia Corporation, Yang Jiunn-Yeong, Wang Chen-Wei, Chung Wen-Chiu, Huang Yu-Lun	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0	Tzung Horng Kuang, Chenghe Investment Co., Ltd Representative: Chih Jen Hsu	
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0	0	0	0
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0	0	0
NT\$50,000,000 (inclusive) to 100,000,000 (not inclusive)	0	0	0	0
More than NT\$100,000,000	0	0	Khein Seng Pua, Chee Kong Aw Yong	
Total	9	9	9	9

3.3.2 Remuneration of the President and Vice Presidents

Unit: Thousands NTD

Title	Name	Salary (A)		Severance and Retirement Pension (B) (Note3)		Bonus and Extraordinary expenses, etc. (C) (Note4)		Employee Compensation (D) (Note1)				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		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
CEO	Khein Seng Pua	20,083	20,083	503	503	224,650	224,650	110,000	0	110,000	0	355,236 4.36%	355,236 4.36%	N/A
General Manager	Chee Kong Aw Yong													
Deputy General Manager	Tzung Horng Kuang (Note 5)													
Vice President of Technology	Chih Jen Hsu													
Deputy General Manager	Wee Kuan Gan													
Deputy General Manager	Ma Zhong Xun (Note 6)													

Note 1: On March 4, 2021, the Board of Directors resolved to allocate a total of NT \$1,100,000 thousand in employee remuneration for the year.

Note 2: Net income after tax refers to the net income after tax in individual financial statements of NT \$8,147,215 thousand in the 2021 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: Deputy General Manager Tzung Horng Kuang has been dismissed on July 1, 2021.

Note 6: Deputy General Manager Ma Zhong Xun took office on May 1, 2021.

Table of Remuneration Range

Range of Remuneration	Name of President and Vice President	
	Total Amount of Remuneration (A+B+C)	
	The Company	Companies in the consolidated financial statements (D)
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)	Tzung Horng Kuang	
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0
NT\$5,000,000 (inclusive) to 10,000,000 (not inclusive)	Chih Jen Hsu, Ma Zhong Xun	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	Wee Kuan Gan	
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0	0
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0
NT\$50,000,000 (inclusive) to 100,000,000 (not inclusive)	0	0
More than NT\$100,000,000	Khein Seng Pua, Chee Kong Aw Yong	
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				
	General Manager	Chee Kong Aw Yong				
	Vice President of Technology	Chih Jen Hsu				
	Deputy General Manager	Wee Kuan Gan				
	Deputy General Manager (Note)	Kuo Yi Cheng				
	Deputy General Manager (Note)	Ma Zhong Xun				
	Senior Special Assistant and Chief Operating Officer (Note)	Zhi Chyang Yu	-	116,000	116,000	1.42
	Senior Director	Huei Chen Tsay				
	Director	Li Fu Huang				
	Director	Hsiu Chin Liu				
	Senior Branch Director and Investment Director	Shu Hua Chiu				
	Director	Pao Feng Chen				
	Deputy General Manager (Note)	Tzung Horng Kuang				
	Director (Note)	Ching Wen Chan				
	Senior Chief (Note)	Shu Hui Tsai				

Note: Deputy General Manager Kuo Yi Cheng was dismissed on July 1, 2022 and assumed his duties on March 1, 2022; Deputy General Manager Ma Zhong Xun took up his duties on May 1, 2021; Senior Special Assistant and Chief Operating Officer Zhi Chyang Yu took up his duties on February 6, 2021; Deputy General Manager Tzung Horng Kuang and Director Ching Wen Chan were dismissed on July 1, 2021; Senior Manager Shu Hui Tsai was dismissed on February 1, 2022.

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 (%)
	2020		2021			
	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements		
Director	3.31	3.31	3.80	3.80	0.49	0.49
Supervisor	0.07	0.07	0.00	0.00	(0.07)	(0.07)
President and Vice President	2.98	2.98	4.36	4.36	1.38	1.38

(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 \$10,738,640,954 in 2021 years (profit refers to profit before profit before tax deducting employee remuneration and directors' remuneration). On March 4, 2022, the Board of Directors resolved that the remuneration of employees who had been profitably distributed since 2021 years was NT \$1,100,000,000 (accounting for about 10.24% of the profit earned in

2021 years) and the remuneration of directors amounted to NT \$50,000,000 (accounting for about 0.47% of the profit earned in 2021-years), all in cash.

- (2) Analysis of the ratio of the total remuneration paid to directors and supervisors 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 and Supervisors 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 Association, the remuneration paid to directors by the Company in 2021 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 the last two years to the net income after tax of individual or individual financial statements of the Company and all the companies in the consolidated statements increased as compared with that of 2020, mainly due to the increase in the number of directors as a result of the re-election of directors at the regular shareholders' meeting of the Company on June 3, 2020.
- c. The ratio of the total remuneration paid by the Company to supervisors of the net income after tax of individual or individual financial statements in the last two years of the Company and all the companies in the consolidated statements decreased as compared with that of 2020, mainly due to the Company's establishment of the Audit Committee in accordance with the Securities and Exchange Law and the Articles of Association of the Company in June 2020, and the Company no longer has a supervisor in accordance with the law.
- B. Analysis of the ratio of the total remuneration paid to the 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 of the Company and all companies in the consolidated report
- a. The remuneration paid by the Company to the General Manager and Deputy General Manager in 2021 years shall be handled by the Remuneration and Compensation Committee after being reported to the Board of Directors for resolution.
- b. The ratio of total remuneration paid to the general manager and deputy general manager of the Company in the last two years of the Company and

all companies in the consolidated statements to the net profit after tax of the individual or individual financial statements increased as compared with 2020, mainly due to the remuneration payment policy of salary and bonus balance, referring to the situation where the position is paid at the normal level in the same industry, the scope of authority and responsibility of the position within the Company, and the remuneration for the contribution to the operating objectives 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, Supervisors, standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

In accordance with Article 19 of the Company's Articles of Incorporation, the Company shall allocate no more than 1.5% of the Company's annual profits as the remuneration for directors and supervisors; and the Company does not give any remuneration to directors other than that the abovementioned. The procedures of setting remuneration is based on the results of the annual board of directors' performance evaluation, and consideration is given to the period and duration, the scope, manner and content of the evaluation of the self- (or peer) evaluation of the board of directors, which should be disclosed by listed companies (please refer to page 34-35 of this Annual Report), including the evaluation items such as the number of board meetings held, attendance of directors at board meetings, and directors' on-going education. In 2021, the Company held 12 board meetings, the average attendance rate of all directors at board meetings was 98.10%, the actual attendance rate of each director at board meetings was over 80%, and each director's on-going education in 2021 was in line with the number of hours of study required for directors and supervisors of listed companies (please refer to pages 100-102 of this Annual Report). The performance of the Board of Directors shall be evaluated accordingly, and after the Remuneration Committee has reviewed individually, their recommendations shall be submitted to the Board of Directors for review. The remuneration system shall be reviewed from time to time in accordance with the actual operating conditions and relevant laws and regulations in order to strike a balance between sustainable management 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), which is the financial indicator of the annual plan, as a performance appraisal, and links the relevant remuneration; and according to the organizational rules of the Remuneration and Compensation Committee, 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 operational objectives 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, the achievement of short-term and long-term business goals, and financial status shall be taken as the basis; for the remuneration, after reviewing by Remuneration Committee individually, it will be distributed after the proposal is submitted to the Board of Director for discussion and decision.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

The Board of Directors held a total of 12 meetings in 2021-(A), and the attendance of directors was as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Percentage of Actual Attendance (%) (B/A)	Remarks
Chairman	Khein Seng Pua	9	0	100.00	2021.11.18 Resignation
Director	Chenghe Investment Co., Ltd. Representative: Chih Jen Hsu	9	0	100.00	2021.11.18 Resignation
Chairman	Chenghe Investment Co., Ltd. Represented by: Wee Kuan Gan	3	0	100.00	2021.11.18 Inauguration
Director	Chee Kong Aw Yong	12	0	100.00	
Director	Tzung Horng Kuang	12	0	100.00	
Director	Yang Jiunn-Yeong	12	0	100.00	
Director	KIOXIA Corporation Representative: Hiroshi Miyauchi	10	2	83.33	
Independent Director	Wang Chen-Wei	12	0	100.00	
Independent Director	Chung Wen-Chiu	12	0	100.00	
Independent Director	Huang Yu-Lun	12	0	100.00	

Status of attendance by independent directors of various boards of directors in 2021 years

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

2021	Ninth Session Ninth Time	Ninth Session Tenth Time	Ninth Session Eleventh Time	Ninth Session Twelfth Time	Ninth Session Thirteenth Time	Ninth Session Fourteenth Time
Chung Wen-Chiu	◎	◎	◎	◎	◎	◎
Wang Chen-Wei	◎	◎	◎	◎	◎	◎
Huang Yu-Lun	◎	◎	◎	◎	◎	◎

2021	Ninth Session Fifteenth Time	Ninth Session Sixteenth Time	Ninth Session Seventeenth Time	Ninth Session Eighteenth Time	Ninth Session Nineteenth Time	Ninth Session Twentieth Time
Chung Wen-Chiu	◎	◎	◎	◎	◎	◎
Wang Chen-Wei	◎	◎	◎	◎	◎	◎
Huang Yu-Lun	◎	◎	◎	◎	◎	◎

Other items to be recorded:

1. 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:

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

Board of Directors Date:	Period	Content of motion	Independent Director's opinion	The Company's handling of the opinions of Independent Directors
2021.01.29	Ninth Session Ninth Time	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Proposal was approved as proposed	The motion was approved.
		Amendments to some sections of the Company's Permission Form		
2021.03.11	Ninth Session Tenth Time	Amendments to certain Articles of the Company's 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		
		Amendments to certain sections of the Company's "Production Cycle" and "Approval Authority Form"		
		Compensation Plan for the Appointment of Certified Public Accountants of the Company for 2021		
		The Company cooperates with the mechanism of internal rotation of the Deloitte Touche to replace the visa accountant		
2021.05.11	Ninth Session Eleventh Time	The regular performance evaluation and proposal for adjustment of the annual fixed salary for managers		

2021.05.27	Ninth Session Twelfth Time	Purchase of land and buildings in Liyuan section, Xiangshan District, Hsinchu City by the Company		
		Review the 2021 Target Setting Plan adjusted by the CEO and General Manager of the Company".		
2021.07.28	Ninth Session Fourteenth Time	Reviewed the periodic performance evaluation and performance incentive bonus for directors, supervisors and managers of the Company and the payment of remuneration for directors' and supervisors' remuneration as well as employees' remuneration for 2020.		
		The case of 4F building of Super Storage Technology Corporation, a second-tier subsidiary company		
2021.08.06	Ninth Session Fifteenth Time	Financial Report and Business Report of the Company for the Second Quarter (First Half) of 2021		
		The Company intends to issue the first domestic unsecured convertible corporate bonds		
2021.09.22	Ninth Session Sixteenth Time	The Company establishes "2021 Employee Stock Option Plan"		
2021.11.05	Ninth Session Seventeenth Time	Revision of some articles of the Company's accounting system		
		The Company amended "2021 Employee Stock Option Plan"		
		The Company issued the Namelist of Managers and the Employee Share Subscription Price Plan for the first time in accordance with the "Employee Share Subscription and Subscription Method for the year 2021		
		Amendments to the "Payroll Cycle" section of the Company		
		Formulation of 2022 Audit Plan		
2021.11.26	Ninth Session Nineteenth Time	The Company intends to replace the visa firm and the visa accountant		
		Amendments to some sections of the Company's Permission Form		

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

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

Date of the Meeting	Content of motion	Name of Directors	Recusal Causes for Avoidance	Participation in voting (Note)
2021.01.29	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Director Khein Seng Pua, Director Chee Kong Aw Yong, Director Tzung Horng Kuang, Director Chih Jen Hsu	Related Parties of the Motion	No
2021.05.10	The regular performance evaluation and proposal for adjustment of the annual fixed salary for managers	Director Khein Seng Pua, Director Chee Kong Aw Yong, Director Tzung Horng Kuang, Director Chih Jen Hsu		
2021.05.27	Review the 2021 Target Setting Plan adjusted by the CEO and General Manager of the Company".	Director Khein Seng Pua, Director Chee Kong Aw Yong		
2021.07.28	Reviewed the periodic performance evaluation and performance incentive bonus for directors, supervisors and managers of the Company and the payment of remuneration for directors' and supervisors' remuneration as well as employees' remuneration for 2020.	Director Khein Seng Pua, Director Chee Kong Aw Yong, Director Tzung Horng Kuang, Director Chih Jen Hsu, Director Yang Jiunn-Yeong, Director Kioxia Corporation Independent Director Chung Wen-Chiu, Independent Director Wang Chen-Wei, Independent Director Huang Yu-Lun		

Note: Directors who are in interest conflict have avoided the discussions and voting.

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:

Assessments Period	Assessments Period	Assessments Scope	Method	Content	Result
Once a year	January 1, 2021 to December 31, 2021	It includes the overall board of directors, individual board members and functional committees such as the audit committee and the Remuneration committee.	The executive units shall collect the information related to the activities of the Board of Directors (executed by the Shareholders Service Dept.), the Audit Committee (executed by the Shareholders Service Dept.) and the Remuneration Committee (executed by the Department of Human Resources), and distribute and fill out the relevant self-assessment questionnaires such as the "Directors' Performance Appraisal from the Evaluation Questionnaire" and "Audit Committee Members' Performance Appraisal from the Evaluation Questionnaire" and "Remuneration Committee Performance Appraisal from	(1) The measurement items of the performance evaluation of the board of directors include the following five major orientations: A. Participation in the operation of the Company. B. Improvement of the quality of the board of directors' decision making. C. Composition and structure of the Board of Directors. D. Election and Continuous Improvement of Directors. E. Internal controls. (2) The measurement items of the performance appraisal of directors include the following six major aspects: A. Alignment of the goals and missions of the Company. B. Understanding of the director's roles and responsibilities C. Participation in the operation of the Company. D. Management of internal relationship and communication. E. The director's professionalism and continuing education. F. Internal controls. (3) The five main	(1) The overall result of the Board's performance self-assessment is excellent (2) The overall result of the Audit Committee's performance self-assessment was excellent. (3) The overall result of the Remuneration Committee's performance self-assessment is excellent.

			<p>the Evaluation Questionnaire". Finally, after the executive units have unified the information, the results of the record assessment report shall be the results of the performance appraisal of the Board of Directors, the results of the performance appraisal of the Audit Committee and the results of the performance appraisal of the Remuneration Committee, and shall be submitted to the Board of Directors for review and improvement.</p>	<p>criterion of performance evaluation of the Company's functional committees:</p> <ul style="list-style-type: none"> A. Participation in the operation of the Company. B. Awareness of the duties of the functional committee. C. Improvement of quality of decisions made by the functional committee. D. Makeup of the functional committee and election of its members. E. Internal controls. 	
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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 2021 was completed and the results were reported to the Board of Directors on March 4, 2022.
- 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 board'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, the Risk Management Committee, the Corporate Sustainability Management Committee and other functional committees 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

(1) The Company's Audit Committee, composed of 3 members, was established on June 3, 2020.

(2) The term of office of the members of the Board of Directors: June 3, 2020 to June 2, 2023. The most recent annual meeting of the Audit Committee was held 11 times (A).

The qualifications and attendance of the members are as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance (%) (B/A)	Remarks
Convener	Chung Wen-Chiu	11	0	100.00	
Independent Director	Wang Chen-Wei	11	0	100.00	
Independent Director	Huang Yu-Lun	11	0	100.00	

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	The Company's Response
2021.01.29 (1st Session, 6th time)	(1) Credit line of the Company	N/A	After being confirmed by the	The motion was approved.
	(2)The credit line of foreign exchange and derivatives for the Company			
	(3)Amendment to "Management Operation of Avoiding Insider Trading" and			

	"Auditing Procedures of the Insider Trading"		chairman, all attending members passed without objection and submitted to the board of directors for discussion.
	(4)Amendments to some sections of the Company's Permission Form		
2021.03.11 (1st session, 7th time)	(1) 2020 Statement of Internal Control System.		
	(2)Amendments to certain Articles of the Company's 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		
	(3)Proposal for private placement for common shares of the Company		
	(4)Amendments to certain sections of the Company's "Production Cycle" and "Approval Authority Form"		
	(5)Compensation Plan for the Appointment of Certified Public Accountants of the Company for 2021		
	(6)The Company cooperates with the mechanism of internal rotation of the Deloitte Touche to replace the visa accountant		
2021.05.10 (1st session, 8th time)	(1) Credit line of the Company		
	(2) The credit line of foreign exchange and derivatives for the Company		
2021.05.27 (1st session, 9th time)	(1) Purchase of land and buildings in Liyuan section of Xiangshan District, Hinchu City by the Company		
2021.07.28 (1st session, 11th time)	(1) The case of 4F building of Super Storage Technology Corporation, a second-tier subsidiary company		
	(2) Amendments to the Partial Provisions of the Company's "Management Operations Run by the Salary Compensation Committee" and "Audit Operations Run by the Salary Compensation Committee"		
2021.08.06	(1) First unsecured convertible		

(1st session, 12th time)	corporate bonds to be issued by the Company			
	(2) Credit line of the Company			
	(3) The credit line of foreign exchange and derivatives for the Company			
2021.09.22 (1st session, 13th time)	(1) Credit line of the Company			
	(2)The credit line of foreign exchange and derivatives for the Company			
2021.11.05 (1st session, 14th time)	(1) Credit line of the Company			
	(2)The credit line of foreign exchange and derivatives for the Company			
	(3) Amendments to the "Payroll Cycle" section of the Company			
2021.11.26 (1st session, 15th time)	(1)The Company intends to replace the visa firm and the visa accountant			
	(2)Amendments to some sections of the Company's Permission Form			

(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 head and accountants:

(1) Communication between independent directors and internal audit Head

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

Frequency of communication between independent directors and internal audit head (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 Audit Head" on November 5, 2021, 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
March 11, 2021	1. The accountants explained the responsibilities of the Board of Directors and the Audit Committee 2. The accountants make a statement	The accountants have issued an audit report of the "unqualified opinion and emphasized matter

	<p>of independence</p> <p>3. The accountants explained the results of the audit on the Company's financial statements for the year 2020, including the situation of corporate governance, the key audit matters and the audit on the identification of related parties</p> <p>4. The accountants communicate with the competent authority on recent correspondence</p> <p>5. Discussion and communication of the accountants on independent directors' questions</p>	<p>paragraph" on the Company's consolidated financial report and individual financial report for the year 2020. The governance unit has understood the matters explained by the accountants and has no opinion on the audit matters and the audit conclusion.</p>
<p>May 10, 2021</p>	<p>1. The accountants explained the responsibilities of the Board of Directors and the Audit Committee</p> <p>2. The accountants make a statement of independence</p> <p>3. The accountants explain the results of the audit on the Company's financial statements for the first quarter of 2021, including the audit of the corporate governance situation</p> <p>4. Discussion and communication of the accountants on independent directors' questions</p>	<p>The accountants issued an audit report of the "unqualified opinion and emphasized matter paragraph" on the Company's consolidated financial report for the first quarter of 2021. The governance unit has understood the matters explained by the accountants and has no opinion on the audit matters and the audit conclusion.</p>
<p>August 6, 2021</p>	<p>1. The accountants explained the responsibilities of the Board of Directors and the Audit Committee</p> <p>2. The accountants make a statement of independence</p> <p>3. The accountants explained the results of the audit on the company's financial statements for the second quarter of 2021; including the review on the</p>	<p>The accountants issued an audit report of the "Unqualified Opinion and Emphasized Matter Paragraph" on the Company's consolidated financial report for the second quarter of 2021. The governance unit has understood the matters</p>

		<p>corporate governance situation</p> <p>4. Discussion and communication of the accountants on independent directors' questions</p>	<p>explained by the accountants and has no opinion on the audit matters and the audit conclusion.</p>
	November 5, 2021	<p>1. The accountants explained the responsibilities of the Board of Directors and the Audit Committee</p> <p>2. The accountants make a statement of independence</p> <p>3. The accountants explained the results of the audit on the Company's financial statements for the third quarter of 2021; including the audit on the corporate governance situation</p> <p>4. The accountants explained the Company's plan for the audit on the financial statements for the year 2021; and the risk description and response procedures for the scope and method of the audit and the key audit matters</p> <p>5. Discussion and communication of the accountants on independent directors' questions</p>	<p>The accountants issued an audit report of the "Unqualified Opinion and Emphasized Matter Paragraph" on the Company's consolidated financial report for the third quarter of 2021. The governance unit has understood the matters explained by the accountants, and has no opinion on the audit matters and audit conclusions. The audit conclusions are expected to be communicated after the audit on the financial report audit for the fiscal year of 2021 is completed.</p>
	December 6, 2021	<p>1. Introduction of the new accountant to the team</p> <p>2. The accountants explained the Company's plan for the audit on the financial statements for the year 2021; and the risk description and response procedures for the scope and method of the audit and the key audit matters</p> <p>3. Discussion and communication of the accountants on independent directors' questions</p>	<p>The independent directors have understood the matters explained by the accountant and have requested the accountant to conduct the audit according to the plan. The audit conclusion is expected to be communicated after the 2021 year financial report audit is completed.</p>

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 Code of Corporate Governance Practices in accordance with the Code of Corporate Governance Practices for Listed Companies, which has been disclosed on the Company's website at www.phison.com/InvestorRelations/CorporateGovernance/CorporateRegulations/CorporateGovernancePractices .	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	(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	
			transaction, and maintained 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 "Code of Practice on Corporate Governance" defines the policy of diversification of board members. For the specific management objectives and implementation of the diversification policy, please refer to pages 15-16 of this annual report.	(1) No significant differences
(2) In addition to the Salaries and Remuneration Committee and the	V		(2) In addition to the Salaries and Remuneration Committee and the	(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	
Audit Committee, does the company voluntarily set up other functional committees?			Audit Committee established by law, the Company currently has a business continuity management 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.	
(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 34-35 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 requests the accounting firm to provide statements and relevant information on the independence of audit service team members, the number of years the accountant has provided continuous audit services, the quality of audit services and relevant industry	(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	
			experience, and the interaction with management and internal audit head. Based on the assessment by the Board of Directors, the results of the most recent two-year assessment were completed in January of 2021 and 2022, respectively.	
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 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.)?	V		<p>The following departments are responsible for the implementation of the Company's corporate governance-related affairs:</p> <p><u>1. Process the company registration and change registration:</u> The Company shall, in accordance with the results of the resolutions of the Board of Directors and the Board of Shareholders and other matters subject to change of registration of the Company, handle the registration of the Company and the change of registration of the Company in accordance with the law.</p> <p><u>2. Handle the matters related to the meetings of the Board of Directors and the Board of Shareholders in accordance with the law, and assist the Company to comply with the relevant decrees of the Board of Directors and the Board of Shareholders, prepare the minutes of the meetings of the Board of Directors and the Board of Shareholders, and provide the information necessary for the directors</u></p>	No significant differences

Evaluation Items	Operating conditions		Summary Description	Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No		
			<p><u>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>3. 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 Company shall designate the relevant departments together with the Legal Office to be responsible for understanding the changes and impacts of the latest regulations on the company operations.</p>	

Evaluation Items	Operating conditions		Summary Description	Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No		
			<p><u>4. Assist the directors in complying with the laws and regulations:</u> 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>5. Affairs relating to investor relations:</u> 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 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>6. Corporate Governance Officer</u> By the resolution of the Board of Directors adopted on August 6, 2021,</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			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.	
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> <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. In 2021, the Company also cooperated with external consultants to conduct the</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>first employee opinion survey of Taiwanese employees. The senior executives of the Company have discussed the results of the employee opinion survey, and discussed the reasons for and proposed countermeasures for the sectors with relatively low scores.</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 community at any time, participate in community events from time to time, and hold charitable events.</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
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 all 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 Observatory/Glossary/Corporate information session List.	(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	
(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 4, 2021, the Company announced the annual financial report for the year 2021, 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		(1) <u>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 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.,"	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>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> 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> 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> <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</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>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 100 to 102 of this annual report for the status of directors' further training in the 2021 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> There are methods and evaluation standards within the Company that serve as the basis for risk management and measurement.</p> <p>A. Financial Risk (Accounting Department)</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</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>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 Office)</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 (Intellectual Property 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> <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)</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</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>mechanisms, employees' awareness and ability to adapt to information security will be improved from time to time through emails, announcements and monthly meetings.</p> <p>c. In July 2017, the Company established the "Information Security Committee", which is responsible for information security governance, planning, supervision and execution, and established the "Information Security Management Policy", "QW220010 Information System Change Management Code", "QW220011 Server Host Management Code", "QW220006 System Development and Maintenance Management Code" and other relevant regulations. On August 12, 2020, the Company convened a review meeting to review the improvement of information security and the applicability of the assessment. On October 19, 2020, the Company passed the BSI British Standards Institute ISO27001 International Information Security Certification for three years. In the future, the Company will continue to strengthen all aspects of information security protection and the establishment of joint protection mechanisms from personnel to organizations.</p> <p>E. Environmental Risk (Environmental Safety and Health Risk Management</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>Department)</p> <p>(1) Evaluate the risks to employees, the company and the natural environment posed by environmental shocks and health and safety hazards.</p> <p>(2) Pursue environmental and safety Zero Disaster objectives by continuously identifying hazards, evaluating risks, and implementing the 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 channels and specialized areas for stakeholder, and provides channels 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 Association 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</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			Information Observatory in accordance with the law.	

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.

(1) The Company has established the expected improvement indicators based on the final evaluation results of the 7th 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
1.6	Has the company held a shareholders' regular meeting before the end of May?	The original date of the 2021 year ordinary shareholders' meeting of the Company was decided to be held on May 28, 2021. According to the announcement of the competent authority on May 20, 2021, "Respon the COVIS-19 measures for postponing the convening of the shareholders' meeting of the Public Offering Company", the date of the shareholders' meeting of the Public Offering Company should be postponed from July 1, 2021 to August 31, 2021. Therefore, the actual date of the shareholders' meeting of the Company is July 26, 2021.	N/A
1.15	Has the Company established and disclosed on the Company's website internal rules and practices that prohibit insiders, such as	The Company has established the "Management Procedures for Preventing Insider Trading" and held the Directors' Training Course "Insider Trading Prevention and Promotion" on	N/A

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies	
	Yes	No	Summary Description		
			directors or employees, from using information that is not available in the marketplace to make a profit?	November 5, 2021 and the online course "Insider Trading Prevention and Promotion" for all employees of the Company in November 2021, respectively, to continuously realize the promotion of corporate governance.	
2.3			Are the chairman of the board of directors of the company and the general manager or other person of equivalent rank (top manager) not the same person or are they related to each other by spouse or relative?	The chairman of the board of directors of the Company is Mr. Wee Kuan Gan, and the general manager is Mr. Chee Kong Aw Yong, so the chairman of the board of directors of the Company is not the same person as the general manager or other person of equivalent rank (top manager).	N/A
2.7			Has the company voluntarily got more independent director seats than required by law? [If the independent director of the Company reaches more than one-half of the number of director seats, the total score shall be added by one point.]	The Company has established two independent director seats at least and not less than one-fifth of the directors in accordance with the law. Currently, three of the eight directors are independent directors, and the Company has voluntarily set more independent directorships than those provided for by the Law.	N/A
2.14			Has the company got at least three non-statutory functional committees, more than half of whose members are independent directors, and more than one member possesses the professional competence required by the committee, and discloses its	The Company has a Risk Management Committee and a Corporate Sustainability Management Committee, both functional committees under the Board of Directors. The Committee consists of at least three members, all of whom have relevant professional backgrounds, one of whom shall act as the Convenor and at least a majority of	N/A

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			composition, duties and operations? whom shall be independent directors, and shall report to the Board of Directors on its operations once a year.	
2.20			Has the company got at least two independent directors present on each board of Directors? All the attendance rate of the Company's three directors' board for independent directors in 2021 year were 100% .	N/A
2.21			Has the Company got a Corporate Governance Officer who is responsible for matters related to corporate governance, and explains the scope of the terms of reference, the focus of business execution and the status of further training in the current year on the Company's website and annual report? [If the corporate governance supervisor is not concurrently appointed by other positions in the company, the total score will be added by one point.] On August 6, 2021, the Company passed the resolution of the Board of Directors, and appointed Zhi Chyang Yu Senior Special Assistant and Chief Operating Officer as the first corporate governance director. The scope of the terms of reference, the focus of business execution in the current year and the status of further training have been published on the Company's website.	N/A
2.22			Has the Company established risk management policies and procedures approved by the Board of Directors to disclose the scope of risk management, organizational structure and operation of risk The Company has a Risk Management Committee, and the risk management policies and procedures approved by the Board of Directors, the scope of risk management, the organizational structure and its operation have been published in the Annual Report, the	N/A

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
	management?		Public Information Observatory and the Company's website.	
3.2	Has the Company announced major news and information in English simultaneously?		The Company began to release the Important information in English simultaneously since January 1, 2021 .	N/A
4.5	Has the company's corporate social responsibility report been verified by a third party?		The Company's 2021 annual Corporate Sustainability Report will be prepared in accordance with the GRI (Global Reporting Initiative)'s Sustainability Reporting Standards 2016, the SASB (Sustainability Accounting Standards Board)'s Semiconductors Sustainability Accounting Standard 2018 and the AA1000, Responsibility Principles Standard, and is expected to be completed and validated by a third party in June 2022.	N/A

3.4.4 Composition and operation of the Remuneration Committee

3.4.4.1 Salaries and Compensation Committee Membership Profile

Date: March 26th, 2022

Criteria		Professional qualifications and experience	Independence Situation	Number of Members of Salaries Compensation Committee of Other Publicly Listed Companies
Identity	Name			
Independent Director (Convener)	Chung Wei-Chiu	Please refer to pages 10-11 and page 13-15 of this annual report.		N/A
Independent Director	Wang Chen-Wei			2
Independent Director	Huang Yu-Lun			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 14, 2020 to June 2, 2023, the latest annual Salaries and Remuneration Committee meeting was held in 6 times (A), the qualifications and attendance of the members are as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance (%) (B/A)	Remarks
Convener	Chung Wei-Chiu	6	0	100.00	
Committee Member	Wang Chen-Wei	6Yang	0	100.00	
Committee Member	Huang Yu-Lun	6	0	100.00	

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 compensation 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 Salaries and Remuneration Committee, if any, shall be specified in the resolution of the Salaries and 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
2021.01.29 4th Committee, 4th meeting	Review the periodic performance appraisal and year-end and performance incentive bonus payment plans of the Company's managers.	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
2021.03.11 4th Committee, 5th meeting	Review the amount of remuneration of directors and supervisors and the amount and method of remuneration of directors and managers who are concurrent employees of the Company from the year 2020.		
2021.05.10 4th Committee, 6th meeting	Regular performance evaluation by the Company's managers and annual fixed remuneration adjustment payment plan.		
2021.05.27 4th Committee, 7th meeting	Amendments to some provisions of the Company's "Meal Management Practices.		

Time	Subject of discussion	Results of the resolution	Treatment of members' opinions by the Company
	Review the 2021 Target Setting Plan adjusted by the CEO and General Manager of the Company".		
2021.07.28 4th Committee, 8th meeting	Discussed the work plan of the Company's Salary and Remuneration Commission for the year 2022. Reviewed the periodic performance evaluation and performance incentive bonus for directors, supervisors and managers of the Company and the payment of remuneration for directors' and supervisors' as well as employees' remuneration for 2020.		
2021.11.05 4th Committee, 9th meeting	The Company issued the Namelist of Managers and the Employee Share Subscription Price Plan for the first time in accordance with the "Employee Share Subscription and Subscription Method for the year 2021".		

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 Sustainability Management Committee", to promote corporate social responsibility. Please refer to the Company's website at www.phison.com/ Investor Relations/Corporate Governance/Enterprise Sustainability Management Committee.</p> <p>1. The Company elevated the Corporate Sustainability Management 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 Sustainability Management Committee is</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>composed of three members, including Ms. Chung Wen-Chiu, independent director, Ms. Huang Yu Lun, 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 of the Corporate Sustainability Management Committee during the year focused on the execution of the suppliers' 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	
			<p>risk assessment and the improvement of the performance of each sustainability assessment. In the future, the new projects related to sustainability will be promoted continuously and the existing project contents will be optimized.</p> <p>(3) The Corporate Sustainability Management Committee reports on its operations status to the Board of Directors once a year. On January 21, 2022, the Board of Directors was informed of the execution performance of sustainability projects of 2021 year and the work plan for the 2022 year project.</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	V		The contents of this disclosure cover the performance of the Company's operating locations in Taiwan from January 1 to December 31, 2020, as well as the management policies and	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	
determine relevant risk management policies or strategies?			<p>response measures for major topics.</p> <p>The Company's Corporate Sustainability Management 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, 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/ Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/2.1 Critical Issues Identification Process (P16-P17) & 3.3 Integrity Management (P28) & 3.4 Legal Compliance (P30) & 3.6 Economic Performance (P34) (P34) & 5 Responsible Supply Chain (P46) (P46) & 6.3 Waste Water and Waste Management</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	
			(P57) (P57) & 7.2 Talent Attraction and Retention (P56) & 7.3 Talent Development and Training (P75).	
3. The environmental agenda				
(1) Has the company established an appropriate environmental management system according to the characteristics of its industry?	V		The Company has adopted the ISO14001 internationally recognized environmental management system standard in 2008. The Company also complies with the ISO14001 standard, establishes an environmental management system, complies with the environmental laws and regulations and customer commitments of the management authority and the government, affects the environment at all stages of operation, formulates improvement goals and plans, regularly monitors improvement and implements energy conservation and waste reduction, and cooperates with manufacturers to continuously improve to reduce the risk of environmental pollution and achieve the environmental protection goal.	(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>The Company has adopted the OHSAS 18001 Internationally Recognized Occupational Safety and Health Management System standard in 2010 and completed the conversion of the new version of the ISO 45001 Occupational Health and Safety Management System in 2020. The Company also complies with the regulations and customer commitments of the management authorities and the government on occupational safety and health, identifies the risks of shock generated in the workplace, formulates improvement goals and plans, regularly monitors improvement and takes responsibility for improvement, and cooperates with manufacturers to continuously improve, reduce occupational safety and health risks, and achieve the goal of zero disaster. The Company has established an environmental safety and health management process within the Company, which involves air pollution control operations, water pollution control operations,</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	
			waste control operations, chemical control operations, noise pollution control operations, etc., in order to control and reduce environmental pollution and occupational safety and health risks. Please refer to the Company's website at www.phison.com/ CSR/Resource Center/2020 Corporate Sustainability Report/6. Environmental Protection (P52-P62) .	
(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 set up an ISO committee to implement various environmental protection policies and measures; environmental safety and health policy, energy management policy, ISO14001 environmental management system, greenhouse gas inventory, green products and green supply and refinery management. Transfer the recycled items to the resource recovery manufacturer for recycling and reuse, and fulfill the duty of environmental	(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	
			protection. The Company's water intake density, electricity consumption density, and greenhouse gas emission density decreased in 2020, indicating an improvement in energy resource utilization efficiency. Please refer to the Company's website at www.phison.com/CSR/Resource Center/2020 Corporate Sustainability Report/6. Environmental protection (P52-62) .	
(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		(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 once a year. The Company has conducted an opportunity and risk assessment for climate change transition, dividing the risks	(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>into three categories: physical, transformation, and product/service, and identifying the risks/opportunities to the Company's financial impact. The Company has prioritized the management of the risk of water shortage and electricity shortage under the climate risk in this year. 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 Company's website at www.phison.com/CSR/Resource Center/2020 Corporate Sustainability Report/6.1 Climate Change Management (p53).</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	
(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 annual greenhouse gas inventories 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. Water intake density (water intake/million revenue) in 2020 was 2.074 m ³ /million revenue, 6.02% lower than 2019; greenhouse gas emission density (greenhouse gas emissions/million revenue) was 0.194 metric tons of CO ₂ equivalent/million revenue, 2.81% lower than 2019. In	(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>2020, a total of 234.4 metric tons of waste was generated, including general utility waste and domestic waste. The recyclable and reusable amount was 49 metric tons, accounting for 20.9% of the total, and the non-recyclable and reusable amount was 185.4 metric tons. Up till now, the above statistics have not been verified by a third party yet.</p> <p>In 2020, the Company promoted two energy-saving projects, which are expected to save 12,021 kWh of electricity and 32,457 NT\$ of electricity costs. Please refer to the Company's website at www.phison.com/CSR/Resource Center/2020 Corporate Sustainability Report/6. Environmental Protection (P53-P59).</p>	
4. social agenda				
(1) Has the company formulated relevant management policies and procedures in accordance with relevant laws and regulations and	V		(1) The Company recognizes and respects the internationally recognized basic labor rights principles and the compliance	(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	
international human rights conventions?			with the labor standards law and other relevant laws and regulations, and established the human rights policy in June 2020. The policy includes diversity and equal opportunity, prohibition of forced labour, healthy and safe workplaces, freedom of association, labor negotiations, privacy protection, business ethics, and commitment to eliminating human rights risks that may arise in the course of operations. 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 the feedback and continuous improvement process. In addition, we	

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 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 Sustainability Management 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/CSR/Resource Center/2020 Corporate Sustainability Report &gt; 7.2.2 Human Rights (P71-P74) .	
(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 remuneration?	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 and reward employees, and the Company does implement them.	(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>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 2020, the proportion of female employees was 26.3%; the proportion of female supervisors was 21.5%; and the proportion of women in senior management was 24.2%.</p> <p>Please refer to the Company's website at www.phison.com/ Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/7.1 Employee Structure (P65) & 7.2.1 Pay & Benefits (P66-P71).</p>	
(3) Has the company provided a safe and healthy working environment	V		(3) 1. For the maintenance of the	(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	
for employees, and regularly implements safety and health education for employees?			<p>working environment, the head office of the Company has obtained the ISO 45001 occupational safety and health management system verification, and regularly commissioned professional institutions to carry out on-site environmental testing, which includes lighting, carbon dioxide, isopropyl alcohol, local exhaust, lead, noise, etc.; quarterly detection of E. coli, total colony count, and monthly replacement of drinking water filters for employees' drinking water; monthly maintenance and upkeep of elevators; periodic building safety assessments; periodic inspection of the central house of the Company's cafeteria; detection of heavy metal content of irrigation water on farmland, etc.</p> <p>2. In order to grasp the health status of employees, allocate suitable work, prevent occupational diseases, and</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>reduce labor disputes, in addition to setting up medical rooms in accordance with the occupational safety and health law, labor health protection rules, labor standards law and other relevant regulations, new personnel health checkups and periodic health checkups are also carried out, and professional doctors are arranged by the company to explain to their peers; the medical care units also implement health management and tracking for persons with abnormal health conditions. Since 2015, in cooperation with Miaoli Health Bureau policy, promote workplace health promotion and obtain certification; host mother classrooms, blood donation activities, common dietary traps and my plate matching, common adult periodontal problems and children's tooth replacement care, pay attention to physical alerts, avoid sudden death threats, modern Tai Chi</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>health, reduce modern civilization diseases, parents and children Read lectures on sharing, first aid education and training & AED operation; promote "breastfeeding at work" in cooperation with the Health Bureau; hold yoga classes and weight loss aerobic classes once a season; park blind massage therapists 3 times a week to achieve compression and muscle relaxation through massage; park doctors 3 times a month Provide health consultation services; arrange pap smear screening, gynecological ultrasound and breast ultrasound screening for women at the annual health checkup; cooperate with the Liver Disease Prevention and Control Foundation to provide liver, biliary, gastrointestinal and cancer screening and blood sampling at the annual health checkup, and provide on-site consultation services for abdominal ultrasound; arrange</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>cervical cancer and influenza vaccine delivery activities.</p> <p>3. In cooperation with the Council of Labor Affairs (CLA) and statutory regulations, 4 major workplace plans are formulated and managed, including: maternity protection, overwork prevention, musculoskeletal injury prevention and workplace abuse. For the contents of the plans, employees' physical and mental conditions are taken care of through questionnaire statistics and on-site interviews.</p> <p>4. In the planning of employee health care, the Company arranged free health lectures from time to time, and continued to cooperate with the Hsinchu Lifeline Association, an incorporated association, since 2011 year changed to entrust "Newmind EAP consultant Co., Ltd." `s Employee Assistance Program (EAPs) since November 2018. Through professional consulting services, 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	
			<p>Company helped colleagues to solve the difficulties and pressures encountered. The Employee Benefits Committee of the Company has a subsidy scheme for the establishment of the same good association by the group employees with reference to the method of establishment of the association, and the regular activities are held by the association; this activity is of considerable benefit to the physical and mental health of the group employees, such as the existing badminton club, basketball club, yoga club, golf club, basketball club, swimming club, billiard club and Taiji Boxing club, etc.</p> <p>5. In 2020, the Company had no major occupational accidents. The total number of occupational injuries of employees was 9, and the number of employees injured was 9 (accounting for 0.41% of the total number of employees at the end of 2020). All of these</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>accidents were traffic accidents of employees commuting to work. The relevant units have strengthened the traffic safety promotion for employees.</p> <p>6. Please refer to the Company's website at www.phison.com/ Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/7.4 Occupational Safety and Health (P77-P82).</p>	
(4) Has the company established effective career development training programs for its employees?	V		(4) The Company has 7 major training structures, namely, education and training for newcomers, in-service/professional training, quality training, auxiliary skills training, safety and health related training, hierarchical training and on-board system training, and also provides self-inspired training and licensing assistance according to personal career needs. Each year, the HR department plans the direction of the annual training plan and the main	(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>target audience according to the professional functional needs of the organization and each department. In addition, in order to cooperate with the development of various businesses and improve the quality of talents, in order to seek the effective use of manpower, regular or irregular various training is held to enhance the employees' working knowledge and skills, and the procedures and operations thereof are handled in accordance with the "Education and Training Management Measures" stipulated by the Company. In order to confirm the effectiveness of the training, the Company evaluates the four 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. In 2020, the total cost of education and</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	
			training of the Company was NT\$3,603,088, with 191 physical courses, of which we counted 173, with an average satisfaction score of 94 points; the online course portion of 162, with a total of 19,924 people completing the training, and 41.9% of the public courses had a learning assessment (written examination). Please refer to the Company's website at www.phison.com/CSR/Resource Center/2020 Corporate Sustainability Report/7.3 Talent Development and Training (P75-P77) .	
(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	(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>relevant regulations on the quality of harmful substances. The Company has a Privacy Policy, and 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/Privacy Policy.</p> <p>In 2021, 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/ Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/3.7 Information Security</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	
			(P37-P39)/4.3 Customer Relationship Management (P44-P45)/6.4.2 Green Management Process (P60-P61).	
(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 regards the suppliers as the important partners and is committed to establishing mutual trust and a stable and sustainable supply chain to grow together. The Company regards the elements as the supplier's assessment criteria, such as quality, price, delivery date, service, and sustainability risk (including worker rights, health and safety, environmental protection, information disclosure, good faith operations, operational sustainability, and supply chain management) and requires the suppliers to disclose sustainable information and improve sustainable performance through its business influence. Each year, the Supplier conducts a self-evaluation of	(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 Sustainability Risk, followed by a review by the Company's personnel. If the score fails, the Responsible Unit will assist the Supplier in making improvements and continue to track the subsequent performance. Through the Contract and Supplier Code of Conduct, the Company requires all suppliers to comply with the Code of Conduct for RBA (Responsible Business Alliance), and annually conducts RBA audits of key suppliers by identifying key suppliers, following the four main steps of supply chain management: compliance with the Code, risk assessment, participation in audits, continuous improvement, and responsible supply chain management. Please refer to the Company's website at www.phison.com/Corporate Social Responsibility/Resource Center/2020Corporate</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	
			Sustainability Report/5. Responsible Supply Chain (P46-P51).	
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		In order to ensure the quality and transparency of information disclosure, the "Corporate Sustainability Report" of 2020 year was prepared in accordance with the principle of the GRI Guidelines and the AA1000 Responsibility Principle, and was completed in June 2021. At present, the Company's report does not have any assurance or guarantee opinions from third-party verification units. Please refer to the Company's website at www.phison.com/CSR/Resource Center/2020 Corporate Sustainability Report/About this Report (P2) . The "Annual Corporate Sustainability Report of 2021" will be prepared in accordance with the Global Reporting Initiative (GRI)'s Sustainability Reporting Standards 2016, SASB (Sustainability Accounting Standards Board)'s Semiconductors Sustainability	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	
			Accounting Standard 2018 and AA1000 Responsibility Principles Standard`s criterion, and is expected to be completed and verified by a third party in June 2022.	

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:

In 2020, 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.

7.Other important information assists to understand what drives sustainable development execution:

(1). Environmental protection:

For details on the Company's execution of its environmental responsibilities, please refer to the Company's website at [www.phison.com/Corporate Social Responsibility/Resource Center/2020Corporate Sustainability Report/6. Environmental Protection \(P52-P62\)](http://www.phison.com/Corporate Social Responsibility/Resource Center/2020Corporate Sustainability Report/6. Environmental Protection (P52-P62)).

(2). Community participation, social contribution, social services, social welfare, human rights, safety and health, and other socially responsible activities:

For details of the Company's ongoing goodwill, please refer to the Company's website at [www.phison.com/Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/8. Social Prosperity \(P83-P87\)](http://www.phison.com/Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/8. Social Prosperity (P83-P87)).

(3). Consumer rights:

For more information on the Company's customer relationship management, please refer to the Company's website at [www.phison.com/Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/4. Innovation and services \(P40-P45\)](http://www.phison.com/Corporate Social Responsibility/Resource Center/2020 Corporate Sustainability Report/4. Innovation and services (P40-P45)).

(4). In order to realize the corporate social responsibility of Phison Electronics Corp. and its subsidiaries, achieve the concept of sustainable development of the corporate, and continue to promote the affairs related to the sustainable development of the corporate, the Company elevated

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 Management Committee of Sustainable Business of the enterprise to a functional committee under the Board of Directors in November 2021, and reported the operation status to the Board of Directors once a year.

The Corporate Sustainability Management Committee is the highest decision-making unit within the Company responsible for ESG affairs. It is composed of three members, whose professional abilities cover the fields of accounting, science and technology, and law. One member serves as the convener, and at least half of the members are independent directors. An Executive Secretariat is established under it.

The duties are as follows:

- I. Promote and strengthen the corporate governance and integrity management system.
- II. Promote and develop the matters related to sustainable development.
- III. Supervise the other work related to sustainable development that have been resolved by the Board of Directors.

Members of the Corporate Sustainability Management Committee

Title	Name of Directors	Primary merit (learning) history
Independent Directors	Chung Wei Chiu	M.S. in Accounting, Chung Yuan Christian University Accountant of Grant Thornton Taiwan
Independent Directors	Huang Yu Lun	Associate Professor, Department of Electrical Engineering, Yangming Jiaotong University Secretary-General, Taiwan Open Course and Education Consortium National Yang ming Chiao Tung University hired vice provost
Senior Special Assistant and Chief Operating Officer	Zhi Chyang Yu (Convener)	M.S. of Risk Management, National Chengchi University United Epitaxy Company, Ltd. Legal Director Phison Electronics Corp. Legal Manager Phison Electronics Corp. Spokesperson Senior Special Assistant, Phison Electronics Corp. Phison Electronics Corp. Chief Operating Officer

Current year operation status:

A total of 1 meeting was held in 2021 year, and the average attendance rate of the members was 100%. The results of the “Supplier Sustainability Risk Assessment” and “Employee Opinion Survey” that conducted during this year were reported at the meeting.

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		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
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	(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"?			(whistleblower@phison.com).	
(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	(1) No major deviation

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			improper rewards.	
(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 Sustainability Management Committee" to promote corporate social responsibility and has reported on the implementation of ethical corporate management in the Board of Directors' Meetings respectively on November 12, 2020 and November 5, 2021.	(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 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

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Has the Company established effective systems for both accounting and internal control to facilitate ethical corporate management, 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?	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
(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

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) Has the Company established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after the investigation, and related confidentiality mechanisms?	V		(2) In the communication protocol of the Company, all personnel should keep the informant data confidential.	(2) No major deviation
(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 November 12, 2020 and November 5, 2021, the Board of Directors reported on the performance of ethic corporate management as follows.</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	

(1) Code of Conduct with Integrity

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.

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 plans to send online courses to directors, managers and employees of the Company on a regular basis every year as a mandatory annual training course.

(2) Education Training

A. The implementation of ethics, human rights, and anti-corruption training for managers / employees/new recruits is as follows:

In 2021, 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 2,927 participants and a total of 1,843 hours.

B. The implementation of Directors' ethnics training is as follows:

In 2021, the Company organized a 3-hours course on “Prevention of Insider Training” for 9 directors on November 5, and arranged courses for a total of 1,909 participants including managers and employees and for a total of 2,793 man-hours on conducting “Propaganda on Prevention of Insider Training” in December. The relevant courses cover: What is insider trading, the definition of insiders, the definition of illegal trading, the criminal liabilities of people who participate in insider trading and how to avoid accidental insider trading.

(3) Establishing a whistle-blowing mechanism: The tip-off system and whistle blower protection

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

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
<p>"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 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 2021 and up to date.</p>				
<p>6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).</p> <p>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.</p>				

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

Important Regulations	Disclosure of inquiry access
<p>Articles of Incorporation Rules of Procedure for Shareholders Meeting Rules of Procedure for Board for Directors Meeting Procedures of Election Directors Rules Governing the Scope of Independent Directors Ethical Corporate Management Best Practice Principles Regulations for Remuneration Committee Auditing Committee Charter Procedures for Acquisition or Disposal of Assets Procedures for Endorsement and Guarantee Procedures for Lending Funds to Other Parties Procedures for Engaging in Derivatives Trading The Procedures of Measures to Prevent Insider Trading Corporate Governance Best-Practice Principles Corporate Social Responsibility Best Practice Principles Ethical Corporate Management Best Practice Principles Methods to Evaluate Performance of the Board of Directors Code of Conduct RBA Case and Investigation Management Measures Ethics Policy Whistle-blowing Method Corporate Sustainable Development Committee Charter Risk Management Policy And Procedure</p>	<p style="text-align: center;"><u>MOPS:</u> http://mops.twse.com.tw</p> <p>Refer to Basic information/E-books/Annual Reports and relevant documents of shareholders' meetings or</p> <p>Refer to Corporate Governance/Corporate Governance Structure/the relevant rules and regulations formulated for corporate governance.</p> <p style="text-align: center;"><u>Corporate website:</u> www.phison.com</p> <p>Investor Relations/Corporate Governance/Company rules and regulations</p>

3.4.8 Other Important Information Regarding Corporate Governance

3.4.8.1 Advanced Training of Directors in 2021

Title	Name	Date Elected	Date of Further Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2021
			From	To				
Director	Khein Seng Pua	2020/06/03	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	6
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Legal person Representative director	Wee Kuan Gan	2021/11/18	2021/12/17	2021/12/17	Securities and Futures Institute	Seminar on How to Use Futures Commodity Hedging Trade as a TWSE/TPEX Listed Company and Corporate Sustainability	3.0	6
			2021/12/24	2021/12/24	Taiwan Corporate Governance Association	A Case Study of Fraud in Financial Statements of Business Enterprises	3.0	
Director	Chee Kong Aw Yong	2020/06/03	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	6
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Director	Tzung Horng Kuang	2020/06/03	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	6
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	

Title	Name	Date Elected	Date of Further Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2021
			From	To				
Director	Jiunn Yeong Yang	2020/06/03	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	6
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Legal person Representative director	Chih Jen Hsu	2020/06/03	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	6
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Legal person Representative director	Hiroshi Miyauchi	2020/11/13	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	6
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Independent Director	Wen Chiu Chung	2020/06/03	2021/09/01	2021/09/01	Financial Supervisory Commission R.O.C. (Taiwan)	The 13th Taipei Corporate Governance Forum	6.0	12
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Independent Director	Chen Wei Wang	2020/06/03	2021/08/03	2021/08/03	Corporate Operation Association of the	Intellectual property management	3.0	9

Title	Name	Date Elected	Date of Further Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2021
			From	To				
					Republic of China	becomes a new topic of corporate governance.		
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	
Independent Director	Yu Lun Huang	2020/06/03	2021/09/01	2021/09/01	Financial Supervisory Commission R.O.C. (Taiwan)	The 13th Taipei Corporate Governance Forum	3.0	9
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3.0	
			2021/11/05	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3.0	

3.4.8.2 Further trainings on corporate governance attended by the financial executive, deputy of the accounting director and the relevant personnel involved in the preparation of financial reports in 2021:

Title	Date of Further Training	Sponsoring Organization	Course	Training Hours
Director	2021/05/20 -2021/05/21	Accounting Research and Development Foundation	Further Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours
Manager	2021/11/25-2021/11/25	Accounting Research and Development Foundation	Further Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours

3.4.8.3 Further Trainings of Internal Auditor on Governance in 2021

Title	Date of Further Training	Sponsoring Organization	Course	Training Hours
Audit Director	2021/09/03	The Institute of Internal Auditors-Chinese Taiwan	The necessary knowledge of Labor Law for Directors at all levels: Recruitment interview, general management and special management of labor on the job and performance appraisal	6 hours
	2021/09/24	The Institute of Internal Auditors-Chinese Taiwan	Business Activities at Risk of Dishonest Conducts and Case Analysis	6 hours
	2021/10/25	The Institute of Internal Auditors-Chinese Taiwan	Discussing the New Position of Internal Auditing from Cases-The Intersection of Ethics and Law	6 hours
Auditors	2021/03/16	The Institute of Internal	Audit Practice of	6 hours

Title	Date of Further Training	Sponsoring Organization	Course	Training Hours
		Auditors-Chinese Taiwan	Manufacturing Cycle	
	2021/11/25	The Institute of Internal Auditors-Chinese Taiwan	Audit Skills in Practice	6 hours
Corporate governance director	2021/08/31	Taipei Exchange	2021 TPEX Sustainability through ESG Webinars	2 hours
	2021/09/01	Taipei Exchange	2021 TPEX Sustainability through ESG Webinars	2 hours
	2021/11/05	Taiwan Corporate Governance Association	Insider Trading Prevention	3 hours
	2021/11/05	Taiwan Corporate Governance Association	Compliance with Cross-strait Economic and Trade Control Laws and Regulations	3 hours
	2021/12/17	Securities and Futures Institute	Seminar on How to Use Futures Commodity Hedging Trade as a TWSE/TPEX Listed Company and Corporate Sustainability	3 hours

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

Domestic (Overseas) Certificates	Finance, Accounting and Stock Personnel	Auditors
Domestic Certificates	Book keeper of general examination Level B technician for accounting Level C technician for accounting Service Personnel Professional Competency Test Certificate	Certificate by Institute of Internal Auditors Qualification of Internal Control Skills Test
Overseas Certificates	None	Certified Internal Auditor (CIA) Certification in Risk Management Assurance (CRMA)

3.4.8.5 Buying Insurances for Directors in the Past Two Years:

Subject	Insurance company	Insured amount	Term
All Directors and Supervisors	Fubon Insurance Co., Ltd.	US\$ 20,000,000	2021/01/12 - 2022/01/12
Directors, Supervisors and Important Employees	Cathay Century Insurance Co., Ltd.	US\$ 20,000,000	2022/01/12 - 2023/01/12

3.4.8.6 Drafting of Corporate Sustainability Report:

In order to ensure the transparency of information disclosure, the Company's Corporate Sustainability Report, which have been prepared since 2013, were prepared as follows for the latest two years.

Year	Principles	Remark
2020	In accordance with the reporting and quantity principles of GRI-101 and the accountability principle of AA1000,	It was disclosed on the website and MOPS in June 2021.
2021	In accordance with GRI Standards 2016 of Global Reporting Initiative (GRI), Semiconductors Sustainability Accounting Standard 2018 of Sustainability Accounting Standards Board (SASB)and the accountability principle of AA1000,	It is expected to be disclosed on the website and MOPS in June 2022.

3.4.8.7 In order to maintain our leading position in the industry and protect our R&D achievements, the Intellectual Property Office is the dedicated unit for planning and executing the management of intellectual property, and has established an intellectual property management system to follow the corporate governance policies of the competent authorities and handle patent disputes to reduce the risks associated with intellectual property rights. The Company's intellectual property is produced, managed and applied in conjunction with the Company's strategic objectives, and its implementation is reported to the Board of Directors from time to time.

- (1) Patent management: The Company mainly implements this at the executive level through patent mining, R&D technology evaluation, incentive system, and education and training. In terms of the patent application strategy, the Company mainly focuses on the quality and the core, and encourages the employees to apply for patents, so the continuous accumulation of technical energy can help future product development and maintain market competitiveness.
- (2) Implementation status: The Company has reported the issues related to intellectual property to the board of directors on November 5, 2021. In terms of the number of patent applications, as of the first quarter of 2022, the Company has more than 1,836 patents worldwide, 683 in Taiwan, 594 in the United States, 529 in China, and 30 in other countries. In terms of patent quality, the Company features a patent approval rate as high as 90% or above.

3.4.9 Implementation of Internal Control

1. Statement of Internal Control

PHISON ELECTRONICS CORPORATION Internal Control System Statement

Date: March 04, 2022

The Company states the following with regard to its internal control system during fiscal year 2021, based on the findings of a self-assessment:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinbelow, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring activities. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has assessed the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the assessment mentioned in the preceding paragraph, the Company believes that as of December 31, 2021 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 04, 2022, where none of the eight attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

PHISON ELECTRONICS CORPORATION

Chairman: (signature)
President: (signature)

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																		
2021.07.26 (Annual shareholders' meeting)	Recognized Matters (by Board of Directors)																			
	Adoption of the 2020 Business Report and Financial Statements	<p>The 2020 individual financial statements and consolidated financial statements have been approved by the accountant Xin-Wei Dai and Yu-Wei Fan of Deloitte Touche Tohmatsu Limited and have been approved on March 11, 2021 in the Board of Directors.</p> <p>The information of the 2020 consolidated financial statements is as follows: (Unit: NT\$ thousands (except for Earnings Per Share: NT\$))</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td colspan="2" style="text-align: center;">Consolidated Statements of</td> </tr> <tr> <td colspan="2" style="text-align: center;">Comprehensive Income</td> </tr> <tr> <td>Net operating revenue</td> <td style="text-align: right;">48,496,522</td> </tr> <tr> <td>Gross operating profit</td> <td style="text-align: right;">12,247,475</td> </tr> <tr> <td>Net operating profit</td> <td style="text-align: right;">3,889,607</td> </tr> <tr> <td>Net profit before tax</td> <td style="text-align: right;">9,693,429</td> </tr> <tr> <td>Net profit after tax</td> <td style="text-align: right;">8,706,751</td> </tr> <tr> <td>Total Comprehensive Income</td> <td style="text-align: right;">8,699,044</td> </tr> <tr> <td>Basic EPS (after tax)</td> <td style="text-align: right;">44.14</td> </tr> </table>	Consolidated Statements of		Comprehensive Income		Net operating revenue	48,496,522	Gross operating profit	12,247,475	Net operating profit	3,889,607	Net profit before tax	9,693,429	Net profit after tax	8,706,751	Total Comprehensive Income	8,699,044	Basic EPS (after tax)	44.14
	Consolidated Statements of																			
	Comprehensive Income																			
Net operating revenue	48,496,522																			
Gross operating profit	12,247,475																			
Net operating profit	3,889,607																			
Net profit before tax	9,693,429																			
Net profit after tax	8,706,751																			
Total Comprehensive Income	8,699,044																			
Basic EPS (after tax)	44.14																			
Adoption of the Proposal for Distribution of 2020 Profits	The Ex-Dividend date of the cash dividend is on August 16, 2021, and Cash dividend payment day is on September 9, 2021. (The proportion is NT\$23 per share for shareholder cash dividends).																			
Discussed Matters (by Board of Directors)																				
Proposal for private placement for common shares of the Company	This private stock issuance has been cancelled on March 4, 2022 in the Board of Directors and will be reported to the 2022 shareholders' meeting.																			

Date	Major Resolutions of Shareholders' Meeting	Implementation
	Partial amendment to the "Articles of Incorporation" of the Company.	The resolution has been passed and operated according to the "Articles of Incorporation.", approved by the Ministry of Economic Affairs on August 24, 2021 to be registered and published on the Company's website.
	Partial amendments to the Company's "Procedures for Director Election" (formerly known as "Procedures for Election of Directors and Supervisors")	This resolution has been implemented and published in MOPS on July 26, 2021.
	Partial amendments to the "Procedures for Acquisition or Disposal of Assets", "Derivative Commodity Transaction Processing Procedures", "Procedures for Loaning of Funds to Others" and "Procedures for Making of Endorsements/Guarantees".	This resolution has been implemented and published in MOPS on July 26, 2021.

3.4.11.2 Important Resolutions by Board Meetings

Session	Date	Major Resolutions of Board of Directors
The 11th Meeting of the Ninth Term	2021.05.10	(Proposed by the Audit Committee) The Company's 2021 1st quarter financial statements
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
		(Proposed by the Remuneration Committee) Plan on the regular performance evaluation and annual fixed salary adjustment and distribution of managers of the Company
The 12th Meeting of the Ninth Term	2021.05.27	(Proposed by the Audit Committee) The Company's purchase of land and the buildings at Liyuan Section, Xiangshan District, Hsinchu City
		(Proposed by the Remuneration Committee) Partial amendment to the Company's "Meal Management Measures"
		(Proposed by the Remuneration Committee) Review of the 2021 Goal Setting Proposal upon Adjustment by the CEO and the general manager of the Company
		Review of the list of managers who have resigned from the Company
The 13th Meeting of the Ninth Term	2021.07.06	The Company's proposal to change the venue of the 2021 Annual General Meeting of Shareholders
		(Proposed by the Audit Committee) The Company's proposal to sign Letter of Intent and the corresponding final agreement with the supplier, and pay the deposit as agreed on to ensure the wafer production capacity from 2023 to 2028
		(Proposed by the Audit Committee) The Company's proposal to increase the investment in Power Flash (Samoa) Limited, a subsidiary, to a limit of US\$1,600 thousand and establish a new company named Power Storage Technology (Shenzhen) Limited (tentative name) by indirect investment in Shenzhen, Guangdong Province, China
		The Company's proposal to change the date, time

Session	Date	Major Resolutions of Board of Directors
		and venue of the 2021 Annual General Meeting of Shareholders
The 14th Meeting of the Ninth Term	2021.07.28	(Proposed by the Remuneration Committee) Review of the regular performance evaluation for directors, supervisors and managerial officers as well as the proposal for provision of performance-based incentive bonus to managerial officers and compensation to directors, supervisors, the managerial officers during 2020
		(Proposed by the Audit Committee) Proposal to lease the fourth floor space of SUPER STORAGE TECHNOLOGY CORPORATION.
		(Proposed by the Audit Committee) Partial amendment to the Company's "Operation Management of the Remuneration Committee" and "Auditing Procedures for Operation Management of the Remuneration Committee"
The 15th Meeting of the Ninth Term	2021.08.06	(Proposed by the Audit Committee) Proposal to appoint the Company's first corporate governance director
		(Proposed by the Audit Committee) The Company's financial report and business report for the second quarter (the first half) of 2021
		The Company's earnings distribution table for the first half of 2021
		(Proposed by the Audit Committee) The Company's proposal to change the funding source for purchase of land and the buildings at Liyuan Section, Xiangshan District, Hsinchu City
		(Proposed by the Audit Committee) Amendment to the operation plan of the Company for 2021
		(Proposed by the Audit Committee) The Company's plan to issue the first domestic unsecured convertible corporate bonds
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
The 16th Meeting of the Ninth Term	2021.09.22	(Proposed by the Audit Committee) The Company's

Session	Date	Major Resolutions of Board of Directors
		<p>establishment of “FY2021 Employee Stock Option Plan and Share Subscription Procedures”</p> <p>(Proposed by the Audit Committee) The credit line of banks for the Company</p> <p>(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company</p>
The 17th Meeting of the Ninth Term	2021.11.05	<p>(Proposed by the Audit Committee) The Company's financial statements for the 3rd quarter of 2021</p> <p>(Proposed by the Audit Committee) Partial amendment to the Company’s accounting system regulations</p> <p>(Proposed by the Audit Committee) The credit line of banks for the Company</p> <p>(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company</p> <p>(Proposed by the Audit Committee) The Company’s amendment of “FY2021 Employee Stock Option Plan and Share Subscription Procedures”</p> <p>(Proposed by the Remuneration Committee) The Company's register of managerial officers and the subscription price list for the first issue of employee stock option certificates under the “FY2021 Employee Stock Option Plan and Share Subscription Procedures”</p> <p>(Proposed by the Audit Committee) The Company's register and the subscription price list for the first issue of employee stock option certificates under the “FY2021 Employee Stock Option Plan and Share Subscription Procedures”</p> <p>(Proposed by the Audit Committee) Partial amendment to the Company’s “Payroll and Personnel Cycle”</p> <p>Formulation of the Company’s 2022 Audit Plan</p> <p>The Company’s establishment of the Risk Management Committee</p> <p>The Company’s establishment of the Corporate Sustainability Management Committee</p>

Session	Date	Major Resolutions of Board of Directors
The 18th Meeting of the Ninth Term	2021.11.18	The Company's proposal for re-election of the chairman of the board of directors
The 19th Meeting of the Ninth Term	2021.11.26	(Proposed by the Audit Committee) The Company's proposal to change the certified accounting firm and the certified accountants
		(Proposed by the Audit Committee) Partial amendment to the Company's "Approval Authority Table"
		The Company's internal audit related work
The 20th Meeting of the Ninth Term	2021.12.17	(Proposed by the Audit Committee) The Company's proposal to acquire 51% shares of Nextorage Corporation
		(Proposed by the Audit Committee) Authorization of the Company's transactions with the bank
		Change of the managerial officers for the Company's ZhuNan Branch
The 21st Meeting of the Ninth Term	2022.01.21	(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
		(Proposed by the Audit Committee) The Company's plan to purchase a plot of land at Guangyuan Section, Zhunan Township, Miaoli County
		(Proposed by the Audit Committee) The Company's plan to participate in a bidding of Miaoli County Government to bid for a plot of land at Datong Section, Zhunan Township, Miaoli County
		(Proposed by the Remuneration Committee) The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers
		(Proposed by the Remuneration Committee) Review of the 2022 Goal Setting Proposal by the CEO and the general manager of the Company
		Review of the Company's new manager list
		Review of the list of managers who have resigned from the Company
The 22nd Meeting of the Ninth Term	2021.03.04	(Proposed by the Audit Committee) The Company's

Session	Date	Major Resolutions of Board of Directors
		remuneration distribution plan of 2021 for employees and directors
		(Proposed by the Audit Committee) The Company's business report and financial statements of 2021
		(Proposed by the Audit Committee) The Company's earnings distribution statement of 2021
		(Proposed by the Audit Committee) The Company's statements of distributed cash dividends from earnings for the second half of 2021
		(Proposed by the Audit Committee) The Company's operation plan for 2022
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
		(Proposed by the Audit Committee) The Company's Statement of Internal Control System for 2021
		(Proposed by the Audit Committee) Partial amendment to the Company's "Production Cycle", "Purchase and Payment Cycle" and "Approval Authority Table"
		(Proposed by the Audit Committee) The Company's plan not to proceed with the private placement of common shares decided to be issued at 2021 regular meeting of shareholders
		(Proposed by the Audit Committee) The Company's private placement of common shares
		(Proposed by the Audit Committee) Partial amendment to the Company's "Procedures for Acquisition or Disposal of Assets"
		(Proposed by the Audit Committee) Partial amendment to the Company's "Procedures for Lending Funds to Other Parties"
		(Proposed by the Audit Committee) Partial amendment to the Company's "Procedures for Endorsement and Guarantee"
		(Proposed by the Audit Committee) Designation of the special seal custodian for the Company's seal for endorsement and guarantee

Session	Date	Major Resolutions of Board of Directors
		By-election of the Company's one director (Proposed by the Remuneration Committee) Review of the compensation amount from profit payment to directors, and the amount and method rewarding employees who assume as director or manager concurrently from employee remuneration of 2021 (Proposed by the Remuneration Committee) Review of the annual fixed salary adjustment and payment plan for managers of the Company The Company's plan to convene the 2022 annual shareholders' meeting
The 23rd Meeting of the Ninth Term	2021.04.07	(Proposed by the Audit Committee) Partial amendment to "Regulations for the Employee Welfare Committee" and "Implementation Measures for the Employee Welfare Committee" of the Company's internal system (Proposed by the Audit Committee) Partial amendment to the Company's "Articles of Association" (Proposed by the Audit Committee) Partial amendment to "Rules of Procedure for Shareholders' Meeting" List of one director candidates nominated for by-election at the 2022 Annual General Meeting of Shareholders The Company's plan to add new items to be discussed at the 2022 Annual General Meeting of Shareholders

3.4.12 Major Issues of Record or Written Statements Made by Any Director or Supervisor 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:

March 26, 2022

TITLE	NAME	DATE OF ASSUMPTION OF DUTY	DATE OF DISMISSAL	REASONS FOR RESIGNATION OR DISMISSAL
Chairman	Khein Seng Pua	2020/06/03	2021/11/18	Personal reason

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	2021/01/01~ 2021/ 12/31	2,950	1,600	4,550	[Note]
	Wan Yuan Yu					
Deloitte Touche Tohmatsu Limited	Li Wen Kuo	2021/01/01~ 2021/09/30	3,910	453	4,363	[Note]
	Pei De Chen					

[Note]

- (1) The former certified accountants of the Company were Li wen Kuo and Pei De Chen, both CPAs from Deloitte Touche Tohmatsu Limited. In response to the needs of the Company's internal management, they were replaced by Chien Hui Lu and Wan Yuan Yu, both CPAs from KPMG from the fourth quarter of 2021.
- (2) 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:

The Company's annual audit for 2021 decreased by NTD 440,000 compared with the previous year, which was owing to the amendment to the "Regulations Governing Information to be Published in Annual Reports of Public Companies" made in cooperation with Financial Supervisory Commission R.O.C. (Taiwan) Securities and Futures Bureau (SFB) on November 30, 2021, and the tax certificate fee was charged under non-audit expenses rather than audit fee as before. The Company's audit fee in 2021 did not decrease compared with 2020 due the replacement of accounting firm, so this is 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: None.

3.6 Replacement of CPA:

3.6.1 About the former CPA:

Date of Replacement	Passed by the resolution of the board of directors on November 26, 2021		
Reason and statement of replacement	To meet the needs of the company's internal management		
It's stated that the appointer or accountant terminated or refused to accept the appointment.	The situation of the parties	CPA	Appointed by
	Voluntary termination of appointment		✓
	No longer accept (continue) the appointment		
Comments and reasons for issuing audit reports other than unqualified opinions within the last two years	None		
Disagreement with the issuer	Yes	Accounting principles or practices	
		Disclosures in financial statements	
		Audit scope and procedures	
		Other	
	None	✓	
	Reason		
Supplementary disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

3.6.2 About the successor CPA:

Name of the accounting firm	KPMG
Name of CPA	Accountant Chien Hui Lu Accountant Wan Yuan Yu
Date of Appointment	Passed by the resolution of the board of directors on November 26, 2021
Prior to the formal engagement, any inquiry or consultation on the Accounting Treatment or Accounting Principles for specific transactions, and the type of audit opinion that might be rendered on the Financial Statements	None
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	None

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: None.

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, Supervisors, 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, supervisors, managerial officers, or shareholders holding more than 10% of company shares

Title	Name	2021		Current Year as of March 31, 2022	
		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	(35,000)	-	-	-
Director	Chenghe Investment Co., Ltd.	20,000	-	-	-
CEO	Khein Seng Pua	-	-	-	-
Director/ President	Chee Kong Aw Yong	-	-	-	-
Director	Tzung Horng Kuang	-	-	-	-
Director	Jiunn Yeong Yang	-	-	-	-
Director/Major shareholders	KIOXIA Corporation	-	-	-	-
Representative of KIOXIA Corporation, a director	Hiroshi Miyauchi	-	-	-	-
Independent Director	Chen Wei Wang	-	-	-	-
Independent Director	Wen Chiu Chung	-	-	-	-
Independent Director	Yu Lun Huang	-	-	-	-
Vice Technical President	Chih Jen Hsu	-	-	-	-
Vice President	Kuo Yi Cheng	-	-	-	-
Vice President	Chung Hsun Ma	-	-	-	-
Senior Division Chief and Chief Investment Officer	Shu Hua Chiu	-	-	-	-
Division chief	Pao Feng Chen	-	-	-	-
Senior Special Assistant and Chief Operating Officer	Zhi Chyang Yu	-	-	-	-
Senior Division Chief	Huei Chen Tsay	-	-	-	-
Division chief	Li Fu Huang	-	-	-	-
Division chief	Hsiu Chin Liu	-	-	-	-
Dismissed Associate Manager (Note)	Shu Hui Tsai	(3,000)	-	N/A	
Dismissed Associate Manager (Note)	Ching Wen Chan	-	-	N/A	

Note: Shu Hui Tsai and Ching Wen Chan, the dismissed associate managers, were respectively dismissed on February 1, 2022 and July 1, 2021.

3.8.2 Shares Trading with Related Parties: None.

3.9 Relationship among the Top Ten Shareholders

As of March 26, 2022

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	19,821,112	10.06	N/A	N/A	1,000	0.00	None	None	None
Representative: Hiroshi Miyauchi	0	0.00	0	0.00	0	0.00	None	None	None
Fubon Life Insurance Co., Ltd.	5,709,000	2.90	N/A	N/A	N/A	N/A	None	None	None
Responsible person: Richard M. Tsai	No information accessible						None	None	None
Khein Seng Pua	4,557,972	2.31	806,262	0.41	4,754,144	2.41	None	None	None
Jiunn Yeong Yang	4,549,114	2.31	0	0.00	0	0.00	None	None	None
Taiwan Life Insurance Co., Ltd.	3,605,000	1.83	N/A	N/A	N/A	N/A	None	None	None
Responsible person: Ssu-Kuo Huang	No information accessible						None	None	None
Chee Kong Aw Yong	3,463,745	1.76	36,000	0.02	258,000	0.13	None	None	None
Yuanta Taiwan High-yield Leading Company Fund	2,795,000	1.42	N/A	N/A	N/A	N/A	None	None	None
Chenghe Investment Co., Ltd.	2,383,000	1.21	N/A	N/A	N/A	N/A	Khein Seng Pua	Company Responsible person	None
Responsible person: Khein Seng Pua	4,557,972	2.31	806,262	0.41	4,754,144	2.41	None	None	None
Norges Bank - internal - NBIM PF EQ INTERNAL CFD	2,362,504	1.20	N/A	N/A	N/A	N/A	None	None	None
Hon Wai Ng	2,315,375	1.17	11,561	0.01	0	0.00	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

Date: December 31, 2021, 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	Everspeed Technology Limited	1,000,000	100.00	0	0.00	1,000,000	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	30.27	0	0.00	2,785,000	30.27
The Company	Nextorage Corporation	5,880	49.00	0	0.00	5,800	49.00
Lian Xu Dong Investment Corporation	Ostek Corporation	900,000	100.00	0	0.00	900,000	100.00
Emtops Electronics Corporation	Phison Technology Inc.	3,000,000	100.00	0	0.00	3,000,000	100.00
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	34,842,595	100.00	0	0.00	34,842,595	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 (%)
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
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	[Note1]	100.00	0	0.00	[Note 1]	100.00
Hefei Ruhan Electronic Technology Limited	Hefei Xinpeng Technology Co., Ltd.	[Note2]	24.23	0	0.00	[Note2]	24.23
RealYou Investment Limited	HOSIN Global Electronics Co., Ltd.	50,000,000	13.44	0	0.00	50,000,000	13.44
Core Storage Electronic (Samoa) Limited	HOSIN Global Electronics Co., Ltd.	108,594,900	29.19	0	0.00	108,594,900	29.19

[Note 1] Investment of CNY 40,800,000/NT\$ 182,825 thousand.

[Note 2] Investment of CNY 40,000,000/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\$, share

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2000.11	10	12,000	120,000	3,000,000	30,000,000	Founding capital	None	Note 01
2002.03	10	12,000	120,000	5,000,000	50,000,000	Capital increased by cash: NT\$20,000,000	None	Note 02
2002.05	38	12,000	120,000	6,407,948	64,079,480	Capital increased by surplus: NT\$6,739,480 and capital increased by cash: NT\$7,340,000	None	Note 03
2003.01	45	12,000	120,000	7,907,948	79,079,480	Capital increased by cash: NT\$15,000,000	None	Note 04
2003.04	10	30,000	300,000	17,329,055	173,290,550	Capital increased by surplus: NT\$66,533,250 and capital increased by capital reserve: NT\$27,677,820	None	Note 05
2003.08	28	30,000	300,000	17,695,055	176,950,550	Capital increased by cash: NT\$3,660,000	None	Note 06
2004.08	10	60,000	600,000	35,751,099	357,510,990	Capital increased by surplus: NT\$180,560,440	None	Note 07
2004.11	10	60,000	600,000	35,958,099	359,580,990	Capital increased by employee stock option: NT\$2,070,000	None	Note 08
2005.01	10	60,000	600,000	36,232,099	362,320,990	Capital increased by employee stock option: NT\$2,740,000	None	Note 09
2005.06	10	60,000	600,000	36,255,099	362,550,990	Capital increased by employee stock option: NT\$230,000	None	Note 10
2005.08	10	60,000	600,000	47,155,124	471,551,240	Capital increased by surplus: NT\$108,580,250 and capital increased by employee stock option: NT\$420,000	None	Note 11
2005.11	110	60,000	600,000	51,680,124	516,801,240	Capital increased by cash: NT\$45,000,000 and capital increased by employee stock option: NT\$250,000	None	Note 12
2006.02	10	60,000	600,000	52,212,124	522,121,240	Capital increased by employee stock option: NT\$5,320,000	None	Note 13
2006.05	10	60,000	600,000	52,708,124	527,081,240	Capital increased by employee stock option: NT\$4,960,000	None	Note 14
2006.08	10	80,000	800,000	70,577,124	705,771,240	Capital increased by surplus: NT\$177,500,000 and capital increased by employee stock option: NT\$1,190,000	None	Note 15
2007.01	120.5	100,000	1,000,000	72,577,124	725,771,240	Private common stock NT\$20,000,000	None	Note 16
2007.07	214	100,000	1,000,000	76,577,124	765,771,240	Private common stock NT\$40,000,000	None	Note 17

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2007.08	10	130,000	1,300,000	100,180,261	1,001,802,610	Capital increased by surplus: NT\$217,731,370 and capital increased by employee stock option: NT\$18,300,000	None	Note 18
2007.11	239	130,000	1,300,000	101,180,261	1,011,802,610	Private common stock NT\$10,000,000	None	Note 19
2008.06	128	130,000	1,300,000	102,380,261	1,023,802,610	Private common stock NT\$12,000,000	None	Note 20
2008.06	165	130,000	1,300,000	104,480,261	1,044,802,610	Private common stock NT\$21,000,000	None	Note 20
2008.09	10	130,000	1,300,000	126,766,313	1,267,663,130	Capital increased by surplus: NT\$222,860,520	None	Note 21
2009.03	53	180,000	1,800,000	128,466,313	1,284,663,130	Private common stock NT\$17,000,000	None	Note 22
2009.05	117.5	180,000	1,800,000	134,066,313	1,340,663,130	Private common stock NT\$56,000,000	None	Note 23
2009.08	10	180,000	1,800,000	146,727,286	1,467,272,860	Capital increased by surplus: NT\$126,609,730	None	Note 24
2010.02	10	180,000	1,800,000	147,264,786	1,472,647,860	Capital increased by employee stock option: NT\$5,375,000	None	Note 25
2010.05	10	180,000	1,800,000	147,517,286	1,475,172,860	Capital increased by employee stock option: NT\$2,525,000	None	Note 26
2010.07	10	180,000	1,800,000	147,537,286	1,475,372,860	Capital increased by employee stock option: NT\$200,000	None	Note 27
2010.08	10	230,000	2,300,000	177,040,743	1,770,407,430	Capital increased by surplus: NT\$295,034,570	None	Note 28
2010.11	10	230,000	2,300,000	177,078,743	1,770,787,430	Capital increased by employee stock option: NT\$380,000	None	Note 29
2011.01	10	230,000	2,300,000	177,360,243	1,773,602,430	Capital increased by employee stock option: NT\$2,815,000	None	Note 30
2011.05	10	230,000	2,300,000	178,526,243	1,785,262,430	Capital increased by employee stock option: NT\$11,660,000	None	Note 31
2011.07	10	230,000	2,300,000	178,633,743	1,786,337,430	Capital increased by employee stock option: NT\$1,075,000	None	Note 32
2011.10	10	230,000	2,300,000	178,753,243	1,787,532,430	Capital increased by employee stock option: NT\$1,195,000	None	Note 33
2012.01	10	230,000	2,300,000	178,832,743	1,788,327,430	Capital increased by employee stock option: NT\$795,000	None	Note 34
2012.05	10	230,000	2,300,000	180,021,743	1,800,217,430	Capital increased by employee stock option: NT\$11,890,000	None	Note 35
2012.08	10	230,000	2,300,000	180,025,743	1,800,257,430	Capital increased by employee stock option: NT\$40,000	None	Note 36
2012.11	10	230,000	2,300,000	180,162,243	1,801,622,430	Capital increased by employee stock option: NT\$1,365,000	None	Note 37
2013.02	10	230,000	2,300,000	180,473,993	1,804,739,930	Capital increased by employee stock option: NT\$3,117,500	None	Note 38
2014.07	10	230,000	2,300,000	185,473,993	1,854,739,930	Private common stock NT\$50,000,000	None	Note 39
2015.03	10	230,000	2,300,000	197,373,993	1,973,739,930	Private common stock NT\$119,000,000	None	Note 40
2016.12	10	260,000	2,600,000	197,073,993	1,970,739,930	Eliminating treasury stock of NT\$3,000,000	None	Note 41
2019.06	10	280,000	2,600,000	197,073,993	1,970,739,930	None	None	Note 42

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2020.07	10	300,000	3,000,000	197,073,993	1,970,739,930	None	None	Note 43

[Note 01] This capital increase was approved by the Ministry of Economic Affairs on November 8, 2000 with Letter No. Chung 89521752.

[Note 02] This capital increase was approved by the Ministry of Economic Affairs on March 25, 2002 with Letter No. Chung 09131849090.

[Note 03] This capital increase was approved by the Ministry of Economic Affairs on May 23, 2002 with Letter No. Chung 09132153980.

[Note 04] This capital increase was approved by the Ministry of Economic Affairs on January 28, 2003 with Letter No. Chung 09231612830.

[Note 05] This capital increase was approved by the Ministry of Economic Affairs on April 28, 2003 with Letter No. Chung 09201127820.

[Note 06] This capital increase was approved by the Ministry of Economic Affairs on August 4, 2003 with Letter No. Chung 09232463150.

[Note 07] This capital increase was approved by the Ministry of Economic Affairs on August 26, 2004 with Letter No. Chung 09332620870.

[Note 08] This capital increase was approved by the Ministry of Economic Affairs on November 12, 2004 with Letter No. Chung 09333010190.

[Note 09] This capital increase was approved by the Ministry of Economic Affairs on January 18, 2005 with Letter No. Chung 09431571170.

[Note 10] This capital increase was approved by the Ministry of Economic Affairs on April 18, 2005 with Letter No. Chung 09431980500.

[Note 11] This capital increase was approved by the Ministry of Economic Affairs on August 31, 2005 with Letter No. Chung 09432758570.

[Note 12] This capital increase was approved by the Ministry of Economic Affairs on November 8, 2005 with Letter No. Shan 09401222320.

[Note 13] This capital increase was approved by the Ministry of Economic Affairs on February 16, 2006 with Letter No. Shan 09501027990.

[Note 14] This capital increase was approved by the Ministry of Economic Affairs on May 22, 2006.05.22 with Letter No. Shan 09501093420.

[Note 15] This capital increase was approved by the Ministry of Economic Affairs on August 8, 2006 with Letter No. Shan 09501172160.

[Note 16] This capital increase was approved by the Ministry of Economic Affairs on January 12, 2007 with Letter No. Shan 09601006390.

[Note 17] This capital increase was approved by the Ministry of Economic Affairs on July 4, 2007 with Letter No. Shan 09601142790.

[Note 18] This capital increase was approved by the Ministry of Economic Affairs on August 27, 2007 with Letter No. Shan 09601209920.

[Note 19] This capital increase was approved by the Ministry of Economic Affairs on November 16, 2007 with Letter No. Shan

09601280340.

- [Note 20] This capital increase was approved by the Ministry of Economic Affairs on June 30, 2008 with Letter No. Shan 09701153220.
- [Note 21] This capital increase was approved by the Ministry of Economic Affairs on September 2, 2008 with Letter No. Shan 09701224760.
- [Note 22] This capital increase was approved by the Ministry of Economic Affairs on March 6, 2009 with Letter No. Shan 09801042190.
- [Note 23] This capital increase was approved by the Ministry of Economic Affairs on May 22, 2009 with Letter No. Shan 09801102570.
- [Note 24] This capital increase was approved by the Ministry of Economic Affairs on July 24, 2009 with Letter No. Shan 09801161440.
- [Note 25] This capital increase was approved by the Ministry of Economic Affairs on February 24, 2010 with Letter No. Shan 09901035290.
- [Note 26] This capital increase was approved by the Ministry of Economic Affairs on May 14, 2010 with Letter No. Shan 09901098090.
- [Note 27] This capital increase was approved by the Ministry of Economic Affairs on July 19, 2010 with Letter No. Shan 09901160360.
- [Note 28] This capital increase was approved by the Ministry of Economic Affairs on August 24, 2010 with Letter No. Shan 09901189940.
- [Note 29] This capital increase was approved by the Ministry of Economic Affairs on November 24, 2010 with Letter No. Shan 09901263780.
- [Note 30] This capital increase was approved by the Ministry of Economic Affairs on January 17, 2011 with Letter No. Shan 10001009260.
- [Note 31] This capital increase was approved by the Ministry of Economic Affairs on May 18, 2011 with Letter No. Shan 10001102080.
- [Note 32] This capital increase was approved by the Ministry of Economic Affairs on July 26, 2011 with Letter No. Shan 10001170190.
- [Note 33] This capital increase was approved by the Ministry of Economic Affairs on October 18, 2011 with Letter No. Shan 10001239220.
- [Note 34] This capital increase was approved by the Ministry of Economic Affairs on January 20, 2012 with Letter No. Shan 10101014700.
- [Note 35] This capital increase was approved by the Ministry of Economic Affairs on May 9, 2012 with Letter No. Shan 10101083930.
- [Note 36] This capital increase was approved by the Ministry of Economic Affairs on August 15, 2012 with Letter No. Shan 10101167840.
- [Note 37] This capital increase was approved by the Ministry of Economic Affairs on November 13, 2012 with Letter No. Shan 10101235590.
- [Note 38] This capital increase was approved by the Ministry of Economic Affairs on February 20, 2013 with Letter No. Shan 10201030590.
- [Note 39] This capital increase was approved by the Ministry of Economic Affairs on July 3, 2014 with Letter No. Shan 10301126590.

[Note 40] This capital increase was approved by the Ministry of Economic Affairs on March 11, 2015 with Letter No. Shan 10401035870.

[Note 41] This capital increase was approved by the Ministry of Economic Affairs on December 5, 2016 with Letter No. Shan 10501280670

[Note 42] This capital increase was approved by the Ministry of Economic Affairs on June 25, 2019 with Letter No. Shan 10801075380

[Note 43] This capital increase was approved by the Ministry of Economic Affairs on July 1, 2020 with Letter No. Shan 10901107200

4.1.1.2 Stock class

Unit: share

Stock class	Authorized capital			Remark
	Outstanding shares	Unissued shares	Total	
Common stock	197,073,993	102,926,007	300,000,000	197,073,993 shares are listed in TPEX shares

4.1.2 Shareholder Structure

March 26, 2022; Unit: share, %

Shareholder Structure Number	Government agencies	Financial institutions	Other institutional shareholders	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	4	43	412	38,326	444	39,229
Current shareholding	2,089,000	17,469,789	24,176,062	78,178,814	75,160,328	197,073,993
Shareholding (%)	1.06	8.86	12.27	39.67	38.14	100.00

4.1.3 Shareholding Distribution Status

March 26, 2022; Unit: share

Shareholding range	Number of shareholders	Current shareholding	Percentage (%)
1 to 999	20,994	2,144,638	1.09
1,000 to 5,000	15,572	26,551,284	13.47
5,001 to 10,000	1,225	9,497,782	4.82
10,001 to 15,000	404	5,186,775	2.63
15,001 to 20,000	278	5,062,217	2.57
20,001 to 30,000	229	5,769,431	2.93
30,001 to 40,000	103	3,690,699	1.87
40,001 to 50,000	78	3,574,111	1.81
50,001 to 100,000	164	11,819,422	6.00
100,001 to 200,000	70	9,945,325	5.05
200,001 to 400,000	49	14,327,522	7.27
400,001 to 600,000	16	8,117,155	4.12
600,001 to 800,000	11	7,240,520	3.67
800,001 to 1,000,000	6	5,150,262	2.61
> 1,000,001	30	78,996,850	40.08
Total	39,229	197,073,993	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 26, 2022; Unit: share

Major shareholder's name	Stock	Current shareholding	Percentage (%)
Trusted Investment Account of KIOXIA Corp. by First Bank		19,821,112	10.06
Fubon Life Insurance Co., Ltd.		5,709,000	2.90
Khein Seng Pua		4,557,972	2.31
Jiunn Yeong Yang		4,549,114	2.31
Taiwan Life Insurance Co., Ltd.		3,605,000	1.83
Chee Kong Aw Yong		3,463,745	1.76
Yuanta Taiwan High-yield Leading Company Fund		2,795,000	1.42
Chenghe Investment Co., Ltd.		2,383,000	1.21
Norges Bank - internal - NBIM PF EQ INTERNAL CFD		2,362,504	1.20
Hon Wai Ng		2,315,375	1.17

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

Unit: NT\$

Item		Year	2020	2021
Market price per share	Highest		365.50	620.00
	Lowest		196.50	325.50
	Average		299.38	456.59
Net worth per share	Before distribution		178.39	189.31
	After distribution		155.39	176.31 (Note 1)
Earnings per share	Weighted average shares (thousand shares)		197,074	197,074
	EPS	Before adjustment	44.14	41.34
		After adjustment	44.14	41.34
Dividends per share	Cash dividends		23.00	23.00 (Note 1)
	Free allotment	Dividends from retained earnings	-	-
		Dividends from capital surplus	-	-
	Cumulative unpaid dividends		-	-
Investment Compensation Analysis	Price/Earnings ratio (Note 2)		6.78	11.04
	Price/Dividends ratio (Note 3)		13.02	19.85
	Cash Dividend Yield Rate (Note 4)		7.68	5.04

Note 1: Book value per share = Shareholders' equity / Total number of shares outstanding. Shareholders' equity is calculated by deducting the cash dividends of NT\$2,561,962 thousand from the Company's earnings distribution for the second half of 2021, approved by the Board of Directors on March 4th, 2022. The Company's cash dividends from the second half of 2021 earnings have not yet been distributed, and the Chairman is authorized to set the ex-dividend date, the payment date, and related matter

Note2: P/E Ratio = Current average closing price per share/earnings per share

Note 3: Price/dividend ratio = Current average closing price per share/cash dividends per share

Note 4: 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 Phison's Article 19.1 of the Company, if there is net profit in the final financial statements, after offsetting any loss from prior year(s), 10% of the profit should be appropriated into capital reserve, however, if the capital reserve is up to the paid-in capital, this requirement is not applicable. 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 2021 is as follows:

2021	Date of the resolution of the Board (YYYY/MM/DD)	Date of distribution (YYYY/MM/DD)	Cash dividend per share (NTD)	Total amount of cash dividend (NTD)
H1	2021/08/06	2022/01/20	10	1,970,739,930
H2	2021/03/04	Not yet decided	13 (Note)	2,561,961,909
Total			23	4,532,701,839

Note: Based on the Company's actual total number of 197,073,993 outstanding shares as of March 4, 2022, and the proposed cash dividend per share is NT\$13. 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: N/A.

4.1.8 Compensation for Employees, Directors and Supervisors

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 2021.

(1) The basis for estimating the remuneration to employees and directors in 2021:

Remuneration to employees and directors is based on the Company's profit of NT\$10,738,641,000 in 2021 (profit refers to the profit before tax and before deducting the remuneration payment from profit to employees, directors). Remuneration to employees amounted to NT\$1,100,000,000 (accounting for 10.24% of the profit for 2021) and remuneration to directors amounted to NT\$50,000,000 (accounting for 0.47% of the profit for 2021) was distributed, all in cash.

(2) Basis for calculating the number of shares for stock remuneration to employees: The Company didn't distribute any stock remuneration to employees in 2021.

(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, directors and supervisors 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 4, 2022, the board of directors of the Company passed the resolution on the distribution of remuneration to employees and directors for 2021 to distribute NT\$1,100,000,000 as remuneration to employees and NT\$50,000,000 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: The Company didn't distribute any stock remuneration to employees in 2021, so it's

not applicable.

4.1.8.4 Distribution of remuneration and results reported at the shareholders' meeting

- (1) The Company's profit in 2021 is NT\$10,738,640,954 (profit refers to the profit before tax and before deducting the remuneration payment from profit to employees and directors). The board of directors resolved to remunerate the employees NT\$1,100,000,000 (accounting for 10.24% of the profit for 2021) and the directors NT\$50,000,000 (accounting for 0.47% of the profit for 2021), all in cash.
- (2) The Company plans to report on the distribution of remuneration to employees and directors in 2021 at 2022 Annual General Meeting of Shareholders. Remuneration to managers will be paid upon review of the manager list by the Company's Remuneration Committee and approval of the board of directors.

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

The differences between the remuneration distributed by the Company to employees, directors and supervisors in 2020 and the estimated and listed expenses for the year are stated as follows:

Unit: NT\$

Distribution Item	Amounts approved in shareholders' meetings	Annual amount estimate recognition	Difference	Reasons for discrepancy and processing method
Employee Bonus	1,000,000,000	1,000,000,000	0	None
Remunerations to the Directors and Supervisors	45,000,000	45,000,000	0	

4.1.9 Repurchase of shares by the Company: None.

4.2 Status of Corporate Bonds:

Corporate Bond Class	The first domestic unsecured convertible corporate bonds	
Date of issuance (treatment)	December 17, 2021	
Face value	NT\$ 100,000	
Location of issuance and trading	N/A	
Issue price	NT\$ 100.5	
Total amount	NT\$ 3,500,000,000	
Interest rate	Nominal interest rate 0%	
Term	3 years Date of maturity: December 17, 2024	
Guarantor	None	
Trustee	Taipei Fubon Commercial Bank Co., Ltd.	
Underwriter	Horizon Securities Corp.	
Certified Lawyer	None	
CPA	None	
Repayment terms	Unless the bondholders converts the bonds into ordinary shares of the Company in accordance with Article 10 of the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond, or the Company redeems them in advance in accordance with Article 18 of the Regulations, or the Company repurchase and cancel them through a securities company's business office, the Company will repay the convertible corporate bonds in cash at the time of maturity based on the bond face value, and the payment will be made within ten business days (inclusive of the tenth business day) from the date of maturity.	
Outstanding principal	NT\$ 3,500,000,000	
Terms on Redemption or Prepayment	Please refer to the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond.	
Restrictions	None	
Name of the credit rating agency, rating date, corporate bond rating results	N/A	
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	0 share
	Regulations on Issuance and Conversion (Exchange	Please refer to the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond.

	or Subscription)	
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 197,074 thousand shares, where the maximum possible number of convertible ordinary shares of approximate 6,292 thousand shares (total issuance of NT\$3,500,000,000/NT\$556.3) are converted from convertible corporate bonds, the estimated dilution of the share capital is about 3.09%, 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 no longer than 3 years. Due to the low increase rate and the increasingly dilution ratio of the existing shareholders' equity, the dilution effect is still limited.
Name of the custodian institution for the exchange subject		N/A

4.2.1 Information of Corporate Bond for Conversion

Corporate Bond Class		The first domestic unsecured convertible corporate bonds	
Item		Year	
		2021	Current year as of May 4, 2022
Market price of the corporate bond for conversion	Highest	NT\$ 124.00	NT\$ 124.60
	Lowest	NT\$ 110.55	NT\$ 112.20
	Average	NT\$ 118.03	NT\$ 118.87
Conversion price		NT\$ 556.3	
Date of issuance (treatment)		December 17, 2021	
Conversion price at issuance		Conversion price at issuance: NT\$ 570	
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.	

4.3 Status of Preferred Stocks: None.

4.4 Status of Global Depository 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:

Date: May 5, 2022

Type of employee stock option certificate	1st of 2019 Employee stock option certificate		1st of 2020 Employee stock option certificate	
Date of effective registration	November 22, 2019		April 10, 2020	
Date of issuance (treatment)	(First issuance) December 30, 2019	(Second issuance) October 5, 2020	(First issuance) October 5, 2020	Not issued
Duration	3 years			Not issued
Number of Options Granted	6,000,000 units	2,000,000 units	6,000,000 units	2,000,000 units
Ratio of subscription shares to total issued and outstanding shares (%)	Canceled (Note 1)	1.01 (Note 3)	3.04 (Note 3)	In compliance with the regulations, it cannot be issued after April 9 2021.
Subscription period	Canceled (Note 1)	2022/10/5~2023/10/4		
Method for exercising the warrant	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. Two and half 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	Canceled (Note 1)	0	0	
Exercised amount		0	0	
Number of shares yet to be converted		2,000,000 units	6,000,000 units	
Subscription price per share for unsubscribed shares		NT\$ 243.3 (Note 2)	NT\$ 243.3 (Note 2)	
Proportion of unexecuted subscription quantity in total shares issued (%)		1.01 (Note 3)	3.04 (Note 3)	
Impact to shareholders' equity	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 2.5 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.			

Date: May 5, 2022

Type of employee stock option certificate	1st of 2021 Employee stock option certificate
Date of effective registration	October 4, 2021
Date of issuance (treatment)	November 19, 2021
Duration	4 years
Number of Options Granted	6,000,000 units
Ratio of subscription shares to total issued and outstanding shares (%)	3.04 (Note 3)
Subscription period	4 years
Method for exercising the warrant	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.
Converted shares	0
Exercised amount	0
Number of shares yet to be converted	6,000,000 units
Subscription price per share for unsubscribed shares	NT\$ 404.5 (Note 2)
Proportion of unexecuted subscription quantity in total shares issued (%)	3.04 (Note 3)
Impact to shareholders' equity	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.

Note 1: On October 5, 2020, the board of directors resolved to withdraw and cancel the issued employee stock options of 6,000 thousand units with the consent of the employee stock options holders and replace them with the newly issued "2020 Employee Stock Options Issuance and Stock Purchase Plan".

Note 2: It is the subscription price upon calculation and adjustment in accordance with the issuance regulations.

Note 3: The ratios of the number of shares subscribed and the number of shares outstanding to the total number of shares issued was calculated based on the total number of 197,073,993 shares issued as of March 31, 2022.

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 4)	Options exercised				Options unexercised				
				Subscription Number	Subscription Price (Note 1) (Note 2) (Note 3)	Subscription Amount	Ratio (%) of number of shares subscribed in total issued shares (Note 4)	Subscription Number	Subscription Price (Note 1) (Note 2) (Note 3)	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares (Note 4)	
Manager	CEO	Khein Seng Pua	3,003,000	1.52	0	0	0	0.00	3,003,000	243.30	0	1.52
	President	Chee Kong Aw Yong										
	Vice President	Wee Kuan Gan										
	Vice President (Note 5)	Chung Hsun Ma										
	Vice President (Note 6)	Kuo Yi Cheng										
	Vice Technical President	Chih Jen Hsu										
	Senior Division Chief and Chief Investment Officer	Shu Hua Chiu										
	Senior Division Chief	Huei Chen Tsay										
	Senior Special Assistant and Chief Operating Officer (Note 7)	Zhi Chyang Yu										
	Division chief	Hsiu Chin Liu										
	Division chief	Li Fu Huang										
	Division chief	Pao Feng Chen										
	Vice President (Note 8)	Tzung Horng Kuang										
	Senior Division Chief (Note 9)	Shu Hui Tsai										
Division chief (Note 10)	Ching Wen Chan											
Employee	Division chief	Zhi Ming Chen	785,000	0.40	0	0	0	0.00	785,000	243.30	0	0.40
	Division chief	Zhi Gang Ye										
	Division chief	Ming Ren Liang										
	Deputy Director	Qing Cong Chen										
	Deputy Director	Wen Lung Cheng										
	Deputy Director	Chang Guang Lin										
	Deputy Director	Wei Yung Chen										
	Deputy Director	Jiang Han Xu										
	Deputy Director	Chia-Pin Su										
	Manager	Sheng Wen Chen										
	Manager	Jen Chu Wu										

Note 1: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2019". The second issuance date of employee stock option was October 5, 2020, with the original issuance price at NT\$262.00, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$243.30, and the issued number of shares as 2,000,000.

Note 2: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2020". The first issuance date of employee stock option was October 5, 2020, with the original issuance price at NT\$262.00, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$243.30, and the issued number of shares as 6,000,000.

Note 3: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2021". The first issuance date of employee stock option was November 19, 2021, with the original issuance price at NT\$414.50, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$404.50, and the issued number of shares as 6,000,000.

Note 4: Number of options shares, Options exercised/ Options unexercised Ratio (%) of number of shares subscribed in total issued shares is based on the total number of 197,073,993 shares outstanding as of March 31, 2022.

Note 5: Vice President Chung Hsun Ma took office on May 1, 2021.

Note 6: Division Chief Kuo Yi Cheng was dismissed on July 1, 2021, Kuo Yi Cheng took office as vice president on March 1, 2022.

Note 7: Senior Special Assistant and Chief Operating Officer Zhi Chyang Yu took office on February 6, 2021.

Note 8: Vice President Tzung Horng Kuang was dismissed on July 1, 2021.

Note 9: Senior Division Chief Shu Hui Tsai was dismissed on February 1, 2022.

Note 10: Division Chief Ching Wen Chan was dismissed on July 1, 2021.

4.6 Issuance of New Restricted Employee Shares: In 2020 and as of the date of publication of the annual report, there is no issuance of new restricted employee shares.

4.6.1 For all new restricted employee shares for which the vesting conditions have not yet been met for the full number of shares, the annual report shall disclose the status up to the date of publication of the annual report and the effect on shareholders' equity: N/A.

4.6.2 Names and acquisition status of managerial officers who have acquired new restricted employee shares and of employees who rank among the top ten in the number of new restricted employee shares acquired, cumulative to the date of publication of the prospectus: N/A.

4.7 Status of Issuance of New Shares in Connection with Mergers and Acquisitions: In 2021 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

4.8.1 Content:

1. Document approval number of the competent authority: Official Letter No.1100356577 from the Financial Supervisory Commission (FSC) dated September 8, 2021.
2. Issue class: The first domestic unsecured convertible corporate bonds.
3. Issue amount: 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\$3,517,500,000 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 and 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	-	-

Planned Project	Content	Scheduled Completion Date	Total Funds Required	Scheduled Fund Utilization Progress						
				Paid Amount in 2020 and the First Half of 2021	2021		2022			
					Q3	Q4	Q1	Q2	Q3	Q4
	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 (NT\$2,469,091 thousands *0.71%*3/12), and the interest expense can be saved NT\$17,531 thousands (NT\$2,469,091 thousands *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.

4.8.2 Implementation

Unit: NT\$ thousand

Planned Project	Execution		As of December 31, 2021
	Land acquisition	Amount paid	Scheduled amount
Actual amount			607,864
Progress (%)		Scheduled amount	100.00
		Actual amount	100.00
Phase V Plant & Office Building and Parking Tower Project	Amount paid	Scheduled amount	2,142,994
		Actual amount	1,992,650
	Progress (%)	Scheduled amount	89.22
		Actual amount	82.96
Acquisition of R & D equipment	Amount paid	Scheduled amount	178,430
		Actual amount	80,722
	Progress (%)	Scheduled amount	42.70
		Actual amount	19.31
Repletion of working capital	Amount paid	Scheduled amount	2,469,091
		Actual amount	2,469,091
	Progress (%)	Scheduled amount	100.00
		Actual amount	100.00
Total	Amount paid	Scheduled amount	5,398,379
		Actual amount	5,150,327
	Progress (%)	Scheduled amount	91.55
		Actual amount	87.34

Cause for progress ahead of or behind schedule and plan for improvement:

1. Land acquisition

The Company completed the payment on land acquisition in 2021, resulting in the progress in plan execution of 100.00%. Therefore, the land acquisition plan with the first domestic unsecured convertible corporate bonds has been completely executed.

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

The Company's estimated expenditure in 2021 is NT\$2,142,994 thousands and the accumulative scheduled executive progress is 89.22%. The actual expenditure and

actual execution progress are NT\$1,992,650 thousands and 82.96% respectively. The actual expenditure plan was slightly behind the original plan as of the end of 2021, mainly due to the fact that some projects or acceptance thereof are yet to be completed, resulting in a slight delay in payment than expected.

3. Acquisition of R & D equipment

The Company's estimated expenditure in 2021 is NT\$178,430 thousands, and the accumulative scheduled executive progress is 42.70%. The actual expenditure and actual execution progress are NT\$80,722 thousands and 19.31% respectively. The actual expenditure plan was behind the original plan as of the end of 2021, mainly due to the fact that acceptance of the R & D equipment was behind the schedule, resulting in a delay in payment than expected.

4. Repletion of working capital

As of the end of 2021, the Company has completed execution of the original plan for fund utilization progress

4.8.3 Assessment of the execution benefits

The Company began to issue the first domestic unsecured convertible corporate bonds in December 2021 to raise funds, of which NT\$455,898 thousands would be used to cover the balance for land acquisition, NT\$174,689 thousands would be used to funds the renovation of Phase V Plant & Office Building and Parking Tower Project, NT\$417,822 thousands would be used to purchase R & D equipment and NT\$2,469,091 thousands would be used to replenish the working capital. Among them, the planned project of using NT\$455,898 thousands to cover the balance for land acquisition and NT\$2,469,091 thousands to replenish the working capital was completed in December 2021 and the remainder of the planned project is under execution according to the scheduled progress, significant financial items as at December 31, 2021 are as follows:

Unit: NT\$ thousand

Financial item	2020 (before execution)	2021 (after execution)	Increase (Decrease)
Current assets	37,326,925	49,696,587	12,369,662
Current liabilities	11,762,682	21,827,193	10,064,511
Total liabilities	12,408,485	25,712,923	13,304,438
Total equity	35,155,467	37,308,434	2,152,967
Interest expenses	5,132	19,006	13,874
Operating revenue	48,496,522	62,557,192	14,060,670
Earnings per share (NT\$)	44.14	41.34	(2.8)
Ratio of long-term capital to property, plant, and equipment (%)	770.49	619.41	(151.08)

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	2021	
	Net operating revenue	Proportion of operating revenue (%)
Flash memory module products	50,114,825	80.11
Integrated circuit	1,842,677	2.95
Controllers	10,379,076	16.59
Others	220,614	0.35
Total	62,557,192	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) The PS5025-E25 controller is a PCIe Gen4 SSD with an external DRAM design and a maximum performance of 7200MB/s, which is the best choice for extremely fast gamers.
- (2) The PPS5020-E20 PCIe Gen4 enterprise SSD controller will have a maximum support capacity of 32TB and support special functions in enterprise-grade applications. It will be the most suitable choice for server system integrators.

- (3) The performance of new gen. PS5026-E26 PCIe Gen5 SSD controller will reach 13000MB/s, and it will be a flagship product in the PC market.
- (4) Continue to develop high-end enterprise-class SSD, support higher capacity, higher speed and strengthen interface protection mechanism, and cooperate with strategic partners to jointly develop to meet the needs of enterprise-class storage market.
- (5) Continue to develop smaller, higher-capacity and more power-saving controller solutions, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, as well as meet the high-speed storage needs of future mobile devices.
- (6) Continue to develop controllers that meet the automotive specifications, and continue to strengthen the certification of various automotive regulations, such as higher specifications of AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the rising demand for automotive electronics.

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 nearly 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 mobile 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 7.0 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

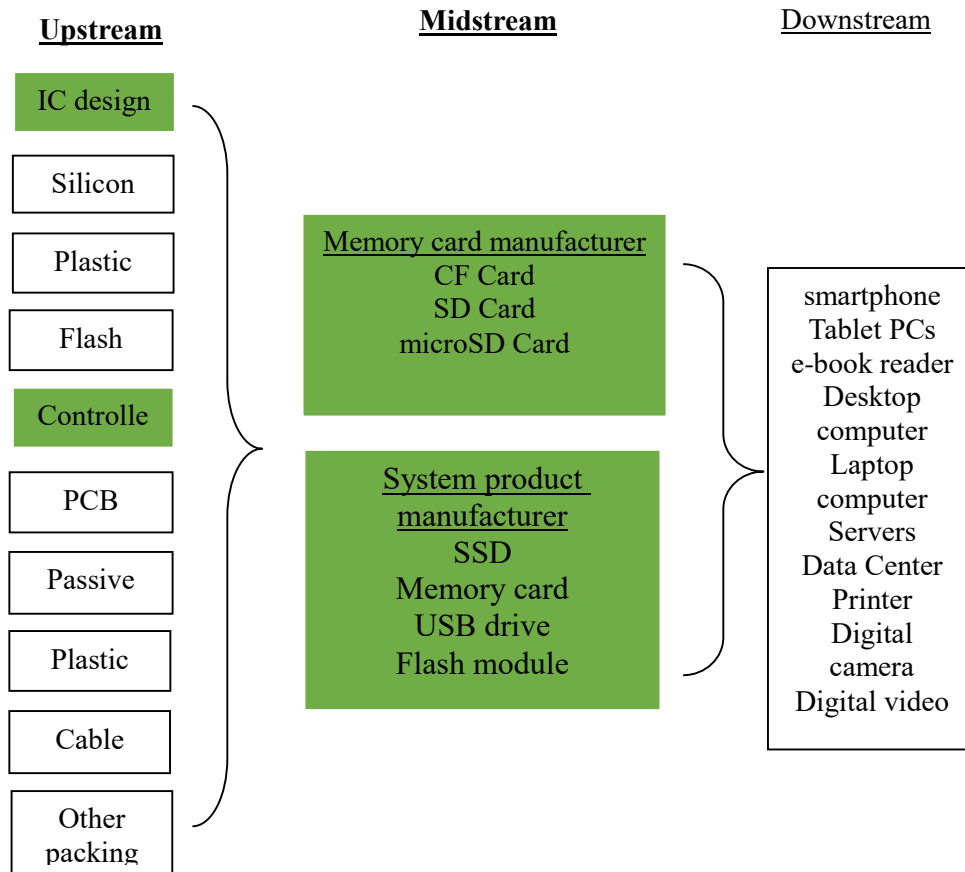
With the improvement of smartphone functions, the processors are more advanced, more applications are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. eMMC is limited due to the electrical specification of the transferring 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 UFS3.1 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:

a. Controllers for SSD, UFS and eMMC: 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.

b. Controllers for flash memory and USB: 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, %

Year	2021
Item	
R&D expenses(A)	8,127,841
Net operating revenue(B)	62,557,192
Percentage of R&D expenditures to net operating revenue(A/B)	12.99%

Note: Adopting IFRS (consolidated statements).

5.1.3.4 Successful Technology or Products

(1) Successful R&D Projects

Year	R&D results
2020	<ul style="list-style-type: none"> ➤ Develop the lower power consumption MIPI Gear 4 PHY as the host interface of UFS NAND storage controller. ➤ Develop the world's only PCIe Gen 4 SSD controller PS5018-E18 with a data read/write transfer speed exceeding 7GB/s. ➤ Develop a new generation of LDPC+DSP error correction module to support 3D NAND more effectively. ➤ Develop USB3.2 flash drives that support high-speed random writing. ➤ Develop the third-generation flash memory management core circuit module to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption. ➤ Develop SD/microSD cards with high random read and write performance, which can expand the built-in flash memory capacity on mobile platforms with advanced operating systems. ➤ Develop SD memory cards that support SD Express SD7.0 specifications, and support the high-resolution audio-visual market. ➤ Develop controllers and solutions that support 3D QLC NAND and next-generation 3D PLC NAND. ➤ Develop low-power RAID error correction modules that support mobile devices. ➤ Develop high-performance SSDs that reduce overall power consumption by combining Host-side resources to meet the goal of energy saving and carbon reduction. ➤ Continue to develop SIP flash memory modules, including support for the NM card formulated by the ITMA Association, to expand the market. ➤ Develop design/verification methods and circuit function modules that meet automotive specifications to support various automotive flash memory modules, including product lines such as SD/microSD, eMMC, UFS, and BGA SSD. ➤ Develop embedded SSDs with high integration, low latency, and low write loss, including low-power BGA SSDs, to meet the storage needs of various mobile devices.
2021	<ul style="list-style-type: none"> ➤ PS3117-S17T SATA III SSD controller is a DRAM_less version with a maximum support capacity of 4TB, which will meet the upgrade requirements of the PC DIY market. ➤ PS5015-E15T is a PCIe Gen3 DRAM_less SSD controller with a maximum speed of 3300MB/s. The design of DRAM_less will also bring consumers a cost-effective experience. ➤ PS5021-E21T PCIe Gen4 SSD controller, with a maximum support capacity of

Year	R&D results
	<p>4TB and a performance of 4800MB/s, is a product that meets the mainstream PC and mobile device markets.</p> <ul style="list-style-type: none"> ➤ The PS5017 SD card controller (complies with SD Express specification) not only meets the high-definition resolution of the pluggable storage application environment, but also brings a better experience for content creators. ➤ The new-generation eMMC PS8232 controller is a low-power design, bringing an excellent power-saving experience to mobile devices and embedded systems. ➤ The new-generation UFS 2.2/3.1 controller equipped with 12nm process not only supports the latest NAND technology, but also provides new ultra-high-speed performance for high-end portable devices to meet the trend of 5G wireless transmission. ➤ Developed a high-capacity USB3.2 Gen2x2 PS2251-18 controller that supports high-speed random write to meet the massive data transmission needs of the high-resolution audio and video market such as content creators. ➤ Launched the FIPS-compliant USB controller PS2251-15 to meet the encryption demand market driven by digital transformation. ➤ For more advanced process, developed next-generation PCIe PHY, and continue to deploy IP licensing field. ➤ Developed a new generation of error correction modules to support high-layer 3D TLC/QLC and next-generation PLC NAND flash memory. ➤ Developed smaller controller solutions with higher capacity support and more power efficiency, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, as well as meet the high-speed storage needs of mobile devices. ➤ Developed controllers that meet automotive specifications and passed various automotive regulatory certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the needs of the automotive electronics market.

(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 236 patent applications pending, with 1,836 patents approved, in various countries as of March 31, 2022.

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, 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	2020	2021
	Operating revenue	Operating revenue
Asia	33,939,905	47,621,861
America	10,534,411	11,094,866
Europe	3,865,801	3,694,956
Australia	151,575	144,146
Others	4,830	1,363
Total	48,496,522	62,557,192

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 3x4 NVMe NVMe specifications in mainstream market, and the PCIe Gen4x4 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 FX series and the world's highest-capacity enterprise-level QLC SSD storage 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 takes the lead in launching new controllers that support UFS3.2, 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 3.2 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 3.0 NAND flash controllers, SD 7.0 (SD Express) controllers, eMMC 5.x controllers, UFS 3.x controllers, SATA SSD, PCIe Gen3/4 SSD controllers, and security USB mobile drive. 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), controlling most of the market share. However, there are many specifications for small memory cards. Moreover, most of the NAND Flash peripheral products have patent protection. Hence, how to obtain enough NAND Flash memory material and how to obtain relevant patent authorization are critical issues to us.

Since the establishment, 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.

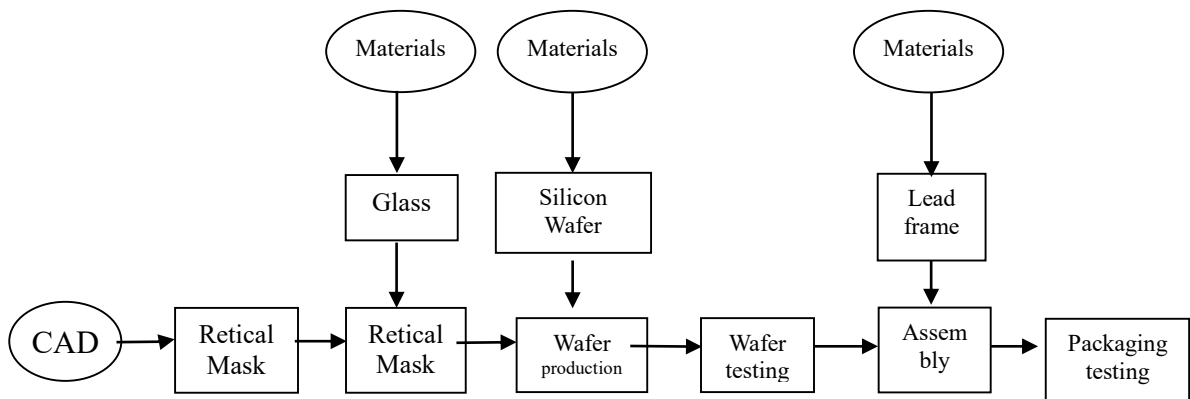
5.2.2 Important Uses of the Main Products and the Production Process

5.2.2.1 Key Applications of Main Products

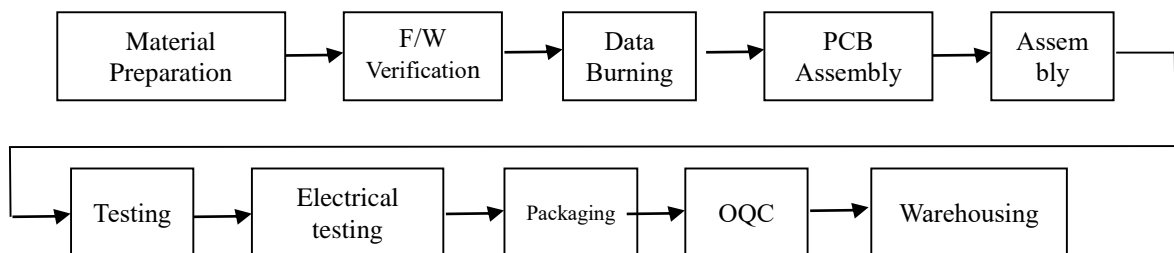
Product Category	Uses
Flash memory system products	These are the storage devices with flash memory (USB drive, flash memory card, SSD, and embedded memory). Since USB interfaces, cameras, cell phones, laptop computers, industrial automation system, automotive electronics, and cloud server become more and more popular, these products are convenient for fast data access.
Flash memory controller chips	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, Taiwan Semiconductor Manufacturing Company (TSMC)	Normal
Flash memory	Kioxia, Micron, YMTC	Normal
Printed circuit boards	Taiwan Printed Circuit Board Techvest Co, Ltd., Cheng Mao Electronic Co., Ltd.	Normal
Connector, Case	IN POWER MINUTE CO., LTD., Wei Jeng Industrial 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

2020				2021			
Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
Kioxia Taiwan Corporation	9,876,557	34.64	Yes	Kioxia Taiwan Corporation	14,676,478	32.84	Yes
Vendor A	5,506,727	19.31	None	Vendor A	8,596,304	19.24	None
Other	13,129,968	46.05	-	Other	21,414,826	47.92	-
Net purchase	28,513,252	100.00	-	Net purchase	44,687,608	100.00	-

Explanations for the increase or decrease:

- (1) Kioxia Taiwan Corporation: In 2020 and 2021, the Company received NT\$9,876,557 thousand and NT\$14,676,478 thousand from KIOXIA Taiwan, respectively, representing 34.64% and 32.84% of the net purchase amount in each year. The increase in the purchase amount in 2021 compared to 2020 was mainly due to the increase in demand for high-capacity memory from downstream terminals. The Company is purchasing more high-capacity and high-specification NAND Flash at higher unit prices.
- (2) Vendor A: In 2020 and 2021, the Company's purchases from Vendor A amounted to NT\$5,506,727 thousand and NT\$8,596,304 thousand, respectively, representing 19.31% and 19.24% of the net purchases for each year. The increase in purchases from 2020 to 2021 was mainly due to the Company's development of new PCIe products and high-capacity NAND Flash required by downstream end-user demand.

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

2020				2021			
Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
Net sales	48,496,522	100.00		Net sales	62,557,192	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 2020 and 2021.

5.2.5 Production Volume Table in the Last Two Years

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

Year Production amount	2020			2021		
	Capacity	Quantity	Production value	Capacity	Quantity	Production value
Major products						
Flash memory module products	[Note 1]	134,330	29,621,334	[Note 1]	155,613	37,492,169
Integrated circuit	[Note 2]	40,432	1,846,455	[Note 2]	33,223	1,077,137
Controllers	[Note 3]	350,121	3,915,950	[Note 3]	344,194	4,313,629
Others	[Note 4]	-	384,283	[Note 4]	-	340,153
Total		524,883	35,768,022		533,030	43,223,088

[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:

The production volume of our controller chips and flash memory modules increased in 2021 due to the increase in orders for high capacity and high performance, while the production volume varied with the increase or decrease in demand for our products in end-use applications.

5.2.6 Sales in the Last Two Years and Change Analysis

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

Year Production amount Major products	2020				2021			
	Domestic		Overseas		Domestic		Overseas	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Flash memory Module products	44,529	11,561,132	90,701	26,663,074	51,119	14,733,549	104,430	35,381,276
Integrated circuit	42,307	658,790	161,274	2,052,851	34,092	390,095	102,156	1,452,582
Controllers	85,351	1,216,027	262,393	6,155,430	132,498	2,095,933	336,996	8,283,143
Others	Note	63,898	Note	125,320	Note	42,382	Note	178,232
Total	172,187	13,499,847	514,368	34,996,675	217,709	17,261,959	543,582	45,295,233

Note: 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:

The sales of our controller chips and flash memory modules increased in 2021 due to the increase in orders for high capacity and high performance, while the sales varied with the increase or decrease in demand for our products in end-use applications.

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		2020	2021	2022 As of March 31
Number of employees	Supervisor	92	599	681
	Production line staff	348	332	328
	General employees	2,159	2,483	2,669
	Total	2,599	3,414	3,678
Average age		41.71	42.26	41.62
Average year of services		4.40	4.51	3.38
Academic distribution ratio(%)	PhD	0.18	0.12	0.09
	Master	27.52	28.55	34.38
	University	43.69	41.73	44.13
	High school	27.57	28.38	20.55
	Below high school	1.03	1.22	0.85

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) Five days of paternity leave, three days for family with pay, seven days for prenatal visits, and seven days a year of special leave on the anniversary of the government's commemoration of a day that is not a holiday as stipulated in the Labor Standards Law.
- (12) Nice gifts for senior employees.
- (13) Employees can advance salary for buying cars or emergency help, etc.

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) Three months of housing for new employees.
- (7) Restaurants, coffee bars and parking lot (around 30,000 square meters)
- (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 2020 and 2021, the total expenditures of educational training are NT\$3,603,088 and NT\$3,094,960, respectively. The training courses are classified into seven categories, and the status of each category and implementation is as follows:

Category	2020				2021			
	Times	Number of trained people-time	Accumulated hours	Total expense (NT\$)	Times	Number of trained people-time	Accumulated hours	Total expense (NT\$)
Professional Skills	137	3,127	672	290,188	261	16,430	24,774	758,310
Quality	118	6,078	386	2,054,156	199	10,711	30,420	1,600,355
Auxiliary Skills	7	190	37	329,699	8	140	664	347,284
Health and Security	44	4,527	428	175,600	41	2,480	3,389	127,405
Management	12	504	132	559,430	1	36	144	35,000
Self-inspiration	27	8,743	183	194,015	22	15,122	52,320	64,000
Language	8	59	210	0	17	219	6,548	162,606
Total	353	23,228	2,048	3,603,088	549	45,138	118,259	3,094,960

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 and there is no dispute in the previous two years.

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

In 2021, before the publication of the annual report, the Company's labor relations are in good harmony without any disputes that cause losses. It is anticipated that there will be no such disputes in the future.

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

The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy," "QW220010 Information System Change Management Specification," "QW220011 Server Host Management Specifications," "QW220006 System Development and Maintenance Management Specifications," etc. On August 12, 2020, an audit meeting was held to review the improvement of information security and assess applicability, and on October 19, 2020, we passed the three-year re-examination of BSI British Standards Association ISO27001 international information security certification. The Company will keep strengthening colleagues and organization over information security protection, and establish joint defense mechanism with vendors or partners in future.

The Company expects to establish the "Procedures for Information Security Control" and submit them to the Board of Directors for approval by 2022 Q3.

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 from 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	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 2015/10/25	License	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	4C Entity LLC	Dated from 2003/03/07	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	USB Implementers Forum, Inc.	Dated from 2019/10/15	USB-IF trademark license	Member responsibility and confidential liability.
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 2012/3/2	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 &	Intel Corp.	Dated from 2012/08/09	Adoption of USB3.0	Terms of use of USB 3.0

Contract Characterization	The Party	Contract Period	Content	Restriction
Membership Agreement			specification	specification and liability of confidentiality.
Industry Standard Association & Membership Agreement	USB Implementers Forum, Inc.	Dated from 2019/1/14	USB technical contributor	Member responsibility and confidential liability.
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 2015/2/10	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.
Plant Construction Contract	Ruentex Engineering & Construction Co. Ltd	Dated from 2020/1/30	The terms and conditions of the Plant Construction	Compliance with the terms and condition of the Contract.
Parking Tower Construction Contract	Ruentex Engineering & Construction Co. Ltd	Dated from 2020/2/5	The terms and conditions of the Parking Tower Construction	Compliance with the terms and condition of the Contract.
Supply Agreement	X Company	Dated from 2020/1/1	According to the Agreement, X Company will supply the mutually agreed quantities and price to Phison	Compliance with the terms and condition of the Contract.
Letter of Intent	Y Company	Dated from 2021/7/6	To Secure	The terms of the

Contract Characterization	The Party	Contract Period	Content	Restriction
			capacity support for the Phison's operation purpose	Letter of Intent shall be kept in secret
Lease Agreement	Super Storage Technology Corporation	2021/9/1-2026/8/31	To meet Phison's expansion demand	Compliance with the terms and condition of the Contract.

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-Consolidated Financial Statement

Unit: NT\$ thousand

Item		Year	Financial information in the most recent five years [Note 1]				
			2017	2018	2019	2020	2021
Current assets			28,809,687	30,605,807	31,959,839	37,326,925	49,696,587
Property, plant, and equipment			2,822,881	2,990,231	3,282,950	4,646,540	6,650,562
Intangible assets			218,130	152,550	268,026	313,894	314,671
Other assets [Note 2]			3,275,906	2,689,952	3,125,965	5,276,593	6,359,537
Total asset value			35,126,604	36,438,540	38,636,780	47,563,952	63,021,357
Current liabilities	Before distribution		8,963,408	9,419,631	9,306,381	11,762,682	21,827,193
	After distribution		12,313,666	11,981,593	11,868,343	16,295,384	24,389,155 [Note 3]
Non-current liabilities			104,881	107,039	141,771	645,803	3,885,730
Total liabilities	Before distribution		9,068,289	9,526,670	9,448,152	12,408,485	25,712,923
	After distribution		12,418,547	12,088,632	12,010,114	16,941,187	28,274,885 [Note 3]
Equity attributable to shareholders of the parent company			26,058,315	26,911,870	29,162,320	35,155,467	37,308,434
Share capital			1,970,740	1,970,740	1,970,740	1,970,740	1,970,740
Capital surplus			6,660,502	6,674,650	6,724,104	6,586,173	7,238,436
Retained earnings	Before distribution		17,390,657	18,647,407	20,643,601	26,763,895	27,995,974
	After distribution		14,040,399	16,085,445	18,081,639	22,231,193	25,434,012 [Note 3]
Other equity interest			36,416	(380,927)	(176,125)	(165,341)	103,284
Treasury stock			0	0	0	0	0
Non-controlling Interests			0	0	26,308	0	0
Total equity	Before distribution		26,058,315	26,911,870	29,188,628	35,155,467	37,308,434
	After distribution		22,708,057	24,349,908	26,626,666	30,622,765	34,746,472 [Note 3]

[Note 1] The financial information for the preceding year has been audited by a certified public accountant and no financial information for the year 2022 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.

[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\$2,561,962 thousand from the earnings distribution of the second half of 2021 that was approved by the board of directors on March 4, 2022.

6.1.1.2 Condensed Balance Sheet -Individual Financial Statement

Unit: NT\$ thousand

Item	Year	Financial information in the most recent five years [Note 1]				
		2017	2018	2019	2020	2021
Current assets		27,076,135	28,840,540	29,491,045	34,003,761	48,124,361
Property, plant, and equipment		2,793,102	2,961,130	3,263,440	3,954,832	5,885,272
Intangible assets		212,108	149,381	267,339	310,269	311,911
Other assets [Note 2]		4,496,367	3,997,535	5,258,129	9,014,263	8,436,023
Total asset value		34,577,712	35,948,586	38,279,953	47,283,125	62,757,567
Current liabilities	Before distribution	8,433,967	8,943,486	8,979,663	11,679,762	21,715,897
	After distribution	11,784,225	11,505,448	11,541,625	16,212,464	24,277,859 [Note 3]
Non-current liabilities		85,430	93,230	137,970	447,896	3,733,236
Total liabilities	Before distribution	8,519,397	9,036,716	9,117,633	12,127,658	25,449,133
	After distribution	11,869,655	11,598,678	11,679,595	16,660,360	28,011,095 [Note 3]
Equity attributable to shareholders of the parent company		26,058,315	26,911,870	29,162,320	35,155,467	37,308,434
Share capital		1,970,740	1,970,740	1,970,740	1,970,740	1,970,740
Capital surplus		6,660,502	6,674,650	6,724,104	6,586,173	7,238,436
Retained earnings	Before distribution	17,390,657	18,647,407	20,643,601	26,763,895	27,995,974
	After distribution	14,040,399	16,085,445	18,081,639	22,231,193	25,434,012 [Note 3]
Other equity interest		36,416	(380,927)	(176,125)	(165,341)	103,284
Treasury stock		0	0	0	0	0
Non-controlling Interests		0	0	0	0	0
Total equity	Before distribution	26,058,315	26,911,870	29,162,320	35,155,467	37,308,434
	After distribution	22,708,057	24,349,908	26,600,358	30,622,765	34,746,472 [Note 3]

[Note 1] The financial information for the preceding year has been audited by a certified public accountant and no financial information for the year 2022 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.

[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\$2,561,962 thousand from the earnings distribution of the second half of 2021 that was approved by the board of directors on March 4, 2022.

6.1.1.3 Condensed Comprehensive Income Statement-Consolidated Financial Statement

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

Item	Year	Financial information in the most recent five years [Note]				
		2017	2018	2019	2020	2021
Operating revenue		41,864,759	40,788,105	44,693,441	48,496,522	62,557,192
Operating gross profit		11,499,622	9,131,954	11,149,275	12,247,475	19,099,784
Operating profit (loss)		6,731,692	4,709,784	5,210,013	3,889,607	9,084,449
Non-operating revenue and expenses		(13,822)	295,397	140,921	5,803,822	653,165
Net income before tax		6,717,870	5,005,181	5,350,934	9,693,429	9,737,614
Net income from continuing operations		5,761,290	4,318,119	4,545,837	8,706,751	8,147,215
Loss from discontinued operations		0	0	0	0	0
Net income (loss) for the period		5,761,290	4,318,119	4,545,837	8,706,751	8,147,215
Other comprehensive income (loss) for the period (Net value after tax)		57,409	(171,742)	218,500	22,503	279,914
Total comprehensive income for the period		5,818,699	4,146,377	4,764,337	8,729,254	8,427,129
Net income attributable to shareholders of the parent company		5,760,972	4,318,119	4,543,489	8,699,044	8,147,215
Net income attributable to non-controlling interests		318	0	2,348	7,707	0
Total comprehensive income attributable to owners of the parent		5,816,473	4,146,377	4,762,958	8,721,255	8,427,129
Total comprehensive income attributable to non-controlling interests		2,226	0	1,379	7,999	0
EPS		29.23	21.91	23.05	44.14	41.34

[Note] The financial information for the preceding year has been audited by a certified public accountant and no financial information for 2022 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.

6.1.1.4 Condensed Comprehensive Income Statement-Individual Financial Statement

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

Item \ Year	Financial information in the most recent five years [Note]				
	2017	2018	2019	2020	2021
Operating revenue	41,773,532	40,804,130	44,479,275	48,350,427	62,552,823
Operating gross profit	11,449,095	9,131,272	11,152,581	12,154,933	18,994,163
Operating profit (loss)	6,723,101	4,736,351	5,212,694	3,849,050	9,033,557
Non-operating revenue and expenses	(9,896)	264,002	127,752	5,455,206	555,084
Net income before tax	6,713,205	5,000,353	5,340,446	9,304,256	9,588,641
Net income from continuing operations	5,760,972	4,318,119	4,543,489	8,699,044	8,147,215
Loss from discontinued operations	0	0	0	0	0
Net income (loss) for the period	5,760,972	4,318,119	4,543,489	8,699,044	8,147,215
Other comprehensive income (loss) for the period (Net value after tax)	55,501	(171,742)	219,469	22,211	279,914
Total comprehensive income for the period	5,816,473	4,146,377	4,762,958	8,721,255	8,427,129
EPS	29.23	21.91	23.05	44.14	41.34

[Note] The financial information for the preceding year has been audited by a certified public accountant and no financial information for the year 2022 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.

6.1.2 Names of CPAs for the Last Five Years and Their Audit Opinions

Year	Name of the accounting firm	Names of the CPAs	Audit opinion
2017	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, You Wei Fan	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2018	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, You Wei Fan	An Unmodified Opinion with a Paragraph of Other Stressed Matters
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

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		Financial analysis for the most recent five years [Note]				
		2017	2018	2019	2020	2021
Financial structure (%)	Ratio of liabilities to assets	25.82	26.14	24.45	26.09	40.80
	Ratio of long-term capital to property, plant, and equipment	923.11	899.99	889.10	760.80	619.41
Solvency (%)	Current ratio	321.41	324.92	343.42	317.33	227.68
	Quick ratio	240.85	243.81	216.46	230.49	138.25
	Times interest earned ratio	1,349.70	988.22	2,668.46	1,889.82	513.34
Operation performance	Receivables turnover (times)	7.95	7.43	8.00	8.12	8.48
	Average days for cash receipts	45.91	49.12	45.62	44.95	43.04
	Inventory turnover ratio (times)	4.89	4.29	3.51	3.34	2.93
	Payables turnover ratio (times)	8.09	7.49	7.94	10.21	6.95
	Average days for sale of goods	74.64	85.08	103.98	109.28	124.57
	PP&E turnover ratio (times)	15.95	14.03	14.25	12.23	11.07
	Total asset turnover ratio (times)	1.25	1.14	1.19	1.13	1.13
Profitability	Return on assets (%)	17.18	12.08	12.11	20.21	14.76
	Return on equity (%)	23.49	16.30	16.21	27.06	22.49
	Ratio of income before tax to paid-in capital (%)	340.88	253.97	271.52	491.87	494.11
	Net profit rate (%)	13.76	10.59	10.17	17.95	13.02
	Earnings per share (NT\$)	29.23	21.91	23.05	44.14	41.34
Cash flow	Cash flow ratio (%)	43.20	55.34	0.00	56.13	23.35
	Cash flow adequacy ratio (%)	92.61	114.62	83.19	87.99	56.80
	Cash re-investment ratio (%)	4.18	6.73	(9.17)	10.94	1.33
Leverage	Degree of operating leverage (DOL)	1.05	1.09	1.09	1.15	1.09
	Degree of financial leverage (DFL)	1.00	1.00	1.00	1.00	1.00

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

- (1) The increase in debt-to-assets ratio was due to the issuance of convertible bonds by the Consolidated Company in 2021.
- (2) The decrease in the ratio of long-term capital to property, plant and equipment was due to the Consolidated Company's payment for outstanding construction work and purchase of land in 2021.
- (3) The decrease in current ratio and quick ratio was due to the increase in cash dividends and accounts payable of the Consolidated Company.
- (4) The decrease in the interest coverage ratio was due to the increase in interest expense as the Consolidated Company increased its foreign currency borrowings in 2021.
- (5) The decrease in turnover rate of accounts payable was due to the increase in accounts payable as a result of the increase in imports at the end of 2021.
- (6) The decreases in return on assets, return on equity, net income and earnings per share were due to the decrease in non-operating income in 2021.
- (7) The decrease in cash flow ratio, cash flow adequacy ratio and cash reinvestment ratio was due to the decrease in net cash flow inflow from operating activities and the increase in property, plant and equipment as a result of the increase in inventories at the end of 2021.

[Note] The financial information for the preceding year has been audited by a certified public accountant and no financial information for 2022 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.

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]				
		2017	2018	2019	2020	2021
Financial structure (%)	Ratio of liabilities to assets	24.64	25.14	23.82	25.65	40.55
	Ratio of long-term capital to property, plant, and equipment	932.95	908.84	893.61	888.92	697.36
Solvency (%)	Current ratio	321.04	322.48	328.42	291.13	221.61
	Quick ratio	235.51	238.01	197.85	203.98	131.77
	Times interest earned ratio	1,348.76	987.26	2,663.24	2,949.12	625.30
Operation performance	Receivables turnover (times)	8.03	7.50	7.99	8.12	8.48
	Average days for cash receipts	45.45	48.66	45.68	44.95	43.04
	Inventory turnover ratio (times)	4.89	4.31	3.52	3.35	2.94
	Payables turnover ratio (times)	8.08	7.50	7.90	10.14	6.89
	Average days for sale of goods	74.64	84.68	103.69	108.95	124.14
	PP&E turnover ratio (times)	16.11	14.18	14.29	13.40	12.71
	Total asset turnover ratio (times)	1.27	1.16	1.20	1.13	1.14
Profitability	Return on assets (%)	17.47	12.26	12.25	20.34	14.83
	Return on equity attributable to shareholders of parent company (%)	23.49	16.30	16.21	27.05	22.49
	Ratio of income before tax to paid-in capital (%)	340.64	253.73	270.99	472.12	486.55
	Net profit rate (%)	13.79	10.58	10.21	17.99	13.02
	Earnings per share (NT\$)	29.23	21.91	23.05	44.14	41.34
Cash flow	Cash flow ratio (%)	46.42	58.27	0.00	58.28	23.32
	Cash flow adequacy ratio (%)	91.45	109.76	85.39	89.79	57.76
	Cash re-investment ratio (%)	4.35	6.74	(9.10)	11.62	1.26
Leverage	Degree of operating leverage (DOL)	1.05	1.09	1.08	1.14	1.08
	Degree of financial leverage (DFL)	1.00	1.00	1.00	1.00	1.00

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

- (1) The increase in debt-to-assets ratio was due to the issuance of convertible bonds by the Company in 2021.
- (2) The decrease in the ratio of long-term capital to property, plant and equipment was due to the Company's payment for outstanding construction and purchase of land in 2021.
- (3) The decrease in current ratio and quick ratio was due to the increase in cash dividends and accounts payable of the Company.
- (4) The decrease of times interest earned ratio was caused by the increasing earnings of the Company in 2020.
- (5) The decrease in turnover rate of accounts payable was due to the increase in accounts payable as a result of the increase in imports at the end of 2021.
- (6) The decreases in return on assets, return on equity, net income and earnings per share were due to the decrease in non-operating income in 2021.
- (7) The decrease in cash flow ratio, cash flow adequacy ratio and cash reinvestment ratio was due to the decrease in net cash flow inflow from operating activities and the increase in property, plant and equipment as a result of the increase in inventories at the end of 2021.

[Note] The financial information for the preceding year has been audited by a certified public accountant and no financial information for 2022 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.

****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 2021 Audit Committee's Review Report

Audit Committee's Report

The board of directors prepared the Company's 2021 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

2022 Annual General Meeting of Shareholders

Phison Electronics Corp.

Audit Committee Convener :

Wen Chiu Chung

March 4, 2022

- 6.4 2021 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 206 to Page 294.**
- 6.5 The Audited Nonconsolidated Financial Statement for the Year of 2021: Please refer to Page 295 to Page 388.**
- 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	2021.12.31	2020.12.31	Difference	
				Amount	%
Cash and cash equivalents		19,040,947	14,961,122	4,079,825	27.27
Financial assets measured at fair value through profit or loss-current		1,206,954	5,494,720	(4,287,766)	(78.03)
Accounts receivable		8,729,261	6,017,701	2,711,560	45.06
Inventories		19,496,534	10,141,479	9,355,055	92.25
Other current assets		1,222,891	711,903	510,988	71.78
Financial assets measured at fair value through profit or loss - non-current		451,569	437,236	14,333	3.28
Financial assets measured at fair value through other comprehensive profit and loss - non-current		634,757	360,304	274,453	76.17
Investment accounted for using equity method		4,155,042	4,007,874	147,168	3.67
Property, plant, and equipment		6,650,562	4,646,540	2,004,022	43.13
Other non-current assets		1,432,840	785,073	647,767	82.51
Total assets		63,021,357	47,563,952	15,457,405	32.50
Notes payables and accounts payables		9,036,683	3,455,917	5,580,766	161.48
Other current liabilities		12,790,510	8,306,765	4,483,745	53.98
Payable corporate bonds		3,412,855	0	3,412,855	100.00
Other non-current liabilities		472,875	645,803	(172,928)	(26.78)
Total liabilities		25,712,923	12,408,485	13,304,438	107.22
Share capital		1,970,740	1,970,740	0	0.00
Capital surplus		7,238,436	6,586,173	652,263	9.90
Retained earnings		27,995,974	26,763,895	1,232,079	4.60
Other equity interest		103,284	(165,341)	268,625	162.47
Total equity attributable to shareholders of the parent company		37,308,434	35,155,467	2,152,967	6.12
Non-controlling Interests		0	0	0	0.00
Total equity		37,308,434	35,155,467	2,152,967	6.12

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 cash and cash equivalents was mainly due to the cash inflow from the disposal of financial assets measured at fair value through profit or loss.
- (2) The decrease in financial assets at fair value through profit or loss - current was mainly due to the redemption of funds.
- (3) The increase in accounts receivable was due to the increase in operating income.
- (4) The increase in inventories was mainly due to the increase in stocking due to the increase in orders placed by customers and the projected market demand during the period.
- (5) The increase in other current assets was due to the increase in financial assets measured at amortized cost and operating tax refund receivable.
- (6) The increase in financial assets at fair value through other comprehensive income or loss - noncurrent was mainly due to the increase in investment and valuation benefits.
- (7) The increase in property, plant and equipment was mainly due to the payment for outstanding construction work and purchase of land in 2021.
- (8) The increase in other non-current assets was mainly due to the increase in deferred income tax assets and refundable deposits.
- (9) The increase in accounts payable was due to the increase in imports at the end of the period.
- (10) The increase in other current liabilities was mainly due to the increase in dividend payable and income tax liabilities for the period.
- (11) The increase in bonds payable was due to the issuance of the first domestic unsecured convertible bonds in 2021.
- (12) The decrease in Other non-current liabilities was mainly due to the decrease in deferred income tax liabilities.
- (13) The increase in other equity was mainly due to the benefit from the valuation of financial assets at fair value through other comprehensive income.

7.2 Operating Results Analysis

7.2.1 Comparison Analysis of Operating Results

Consolidated Statements of Comprehensive Income

Unit: NT\$ thousand

Item	Year	2021 (Consolidated)		2020 (Consolidated)		2021
		Amount	%	Amount	%	Growth rate
Operating revenue		62,557,192	100.00	48,496,522	100.00	28.99
Operating costs		43,457,408	69.47	36,249,047	74.75	19.89
Operating gross profit		19,099,784	30.53	12,247,475	25.25	55.95
Marketing expenses		1,034,735	1.65	876,567	1.81	18.04
Administrative expenses		846,159	1.35	788,866	1.63	7.26
R&D expenses		8,127,841	12.99	6,752,676	13.92	20.36
Expected credit loss (gain)		6,600	0.01	(60,241)	(0.12)	(110.96)
Operating expenses		10,015,335	16.01	8,357,868	17.23	19.83
Net operating profit		9,084,449	14.52	3,889,607	8.02	133.56
Non-operating income and expenses		653,165	1.04	5,803,822	11.97	(88.75)
Net income before tax		9,737,614	15.57	9,693,429	19.99	0.46
Income tax expense		1,590,399	2.54	986,678	2.03	61.19
Net profit for the period		8,147,215	13.02	8,706,751	17.95	(6.43)
Other comprehensive income (loss)		279,914	0.45	22,503	0.05	1,143.90
Total comprehensive income for the period		8,427,129	13.47	8,729,254	18.00	(3.46)
Net profit for the period attributable to owners of the parent company		8,147,215	13.02	8,699,044	17.94	(6.34)
Comprehensive income (loss) for the period attributable to shareholders of the parent company		8,427,129	13.47	8,721,255	17.98	(3.37)
Earnings per share (NT\$)		41.34		44.14		

- 1 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 operating income was mainly due to product restructuring and higher demand for storage products in terms of application and capacity.
 - (2) The growth of operating gross profit and net operating profit is mainly resulted from the increase of operating income and adjustment of product structure.
 - (3) The increase in operating expenses was mainly due to the increase in the number of employees, higher research and development expenses and the provision of employee bonuses due to the increase in net income before tax.
 - (4) The expected credit impairment loss change was due to the overall good collection of 2020 accounts receivable, the expected credit loss impairment loss reversal.
 - (5) The decrease in net non-operating income and expenses was mainly due to the increase in disposal of equity method investments and gain on disposal of subsidiaries in 2020.
 - (6) The increase in income tax expense was mainly due to the increase in domestic taxable income and the provision of unappropriated earnings tax.
 - (7) The increase in other comprehensive income was mainly due to the adjustment in the valuation of investments in equity instruments measured at fair value through other comprehensive income.
- 2 Estimated sales volume of the year of 2020, the basics and the possible impact on the Company's finance and business and response plan in future:
- With the gradual implementation of 5G infrastructure and product applications around the world, technology applications such as cloud, big data, AI and Internet of Things, which enable high-speed access to large amounts of data, are booming, and the demand for ultra-high-speed data access for various gaming software and gaming console upgrades is expected to continue to drive the rapid growth of ultra-high-speed SSD penetration. The Company continues to expand its investment in R&D. Through its technology leadership strategy, the Company has been expanding into all aspects of NAND storage applications, including high margin markets such as embedded applications, automotive applications, and enterprise server markets.

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	6,852,309	704,940	4,972,747	(181,348)	1,355,970
Reason	1. Market price difference advantage: The increase in average selling price per unit was mainly due to the increase in shipment capacity of finished goods. 2. Cost difference advantage: This was mainly due to the good adjustment of inventory. 3. Sales combination difference disadvantage: The calculation was mainly the result of offsetting price and volume adjustments of the product mix. 4. Quantity difference advantage: Mainly due to the increase in the total shipments.				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Year of 2021

Unit: NT\$ thousand

Item \ Year	2020	2021	Increase (Decrease) Amount	Increasing (Decreasing) Percentage%
Operating activities	6,602,126	5,097,230	(1,504,896)	(22.79)
Investing activities	(434,610)	1,199,152	1,633,762	375.91
Financing activities	(1,261,663)	(2,118,646)	(856,983)	(67.92)
Analysis of the reasons for changes of 20% or more in the percentage of increase or decrease: 1. Decrease in net cash flows generated from operating activities: This was mainly due to the increase in accounts payable at the end of 2021. 2. Increase in net cash flows generated from investing activities: The disposal of financial assets at fair value through profit or loss was mainly due to the Company's disposal of financial assets at fair value. 3. Decrease in cash outflows from financing activities: The decrease was mainly due to the decrease in short-term borrowings and cash dividends paid by the Company.				

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
19,040,947	4,250,000	5,400,000	17,890,947	N/A	N/A
1. Analysis of the cash flow difference of the next year: Operating activities: Mainly resulted from the estimated inventory needs and operation status. Investing activities: Mainly resulted from expenses, such as the construction of new plants, acquisition of fixed assets and intangible assets, and the increase of reinvestment plans. Financing activities: Mainly resulted from the expenses, such as distribution of cash dividends to shareholders.					
2. Remedy action for estimated cash inadequacy: N/A.					

7.4 2021 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 and future year
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 - 2021/12/31	419,400	978,600
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	2021/02/05~2022/03/31	13,397	815,603
Purchase of land and buildings in Liyuan Section, Xiang Shan District, Hsinchu City	The contract between the seller and the buyer was completed on 2021/5/28	607,865	[Note 1]	2021/12/31	0	607,865

[Note 1] The total purchase price of the land and buildings in Li-Yuan Section, Hsiang-Shan District, Hsinchu City was NT\$607,865 thousand, of which NT\$151,966 thousand was paid with its own funds and the remaining balance of NT\$455,899 thousand was paid by issuing the first domestic unsecured convertible bonds.

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 2021 Investment Policy, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for 2022

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

Name of be Reinvested Company	Main Business Activities	2021 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
Global Flash Limited	Investment and trade	76,048	Recognition of investment interests in affiliated companies using the equity method	None	None
Regis Investment (Samoa) Limited	Investment	63,742	Recognition of investment interests in affiliated companies using the equity method	None	None
Phisontech Electronics Taiwan Corp.	Investment and trade	52,000	Recognition of investment interests in affiliated companies using the equity method	None	None
Lian Xu Dong Investment Corporation	Investment	45,665	Valuation gain of dividend earned and recognized financial assets	None	None
EpoStar Electronics (BVI) Corporation	Investment	(3,205)	Recognition of loss on disposal of investments	None	None
Emtops Electronics Corp.	Investment	4,730	Recognition of investment interests in affiliated companies using the equity method	None	None
Power Flash (Samoa) Limited	Investment and trade	(661)	Recognition of unrealized foreign currency exchange losses	None	None
Everspeed Technology Limited	Trade of electronic components	2,904	Recognition of investment interests in affiliated companies using the equity method	None	None
ProGrade Digital Inc.	High-speed flash memory product and market development	31,905	Stable growth in operations and profitability of the business	None	None
Nextorage Corporation	Development, design, manufacturing and sales of flash memory application products	22,776	Stable growth in operations and profitability of the business	None	None

Name of be Reinvested Company	Main Business Activities	2021 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
Phison Electronics Japan Corp.	Sales and service office	980	Stable operations and modest profitability for the business	None	None
Microtops Design Corporation	Design and development of flash memory controller chips for peripheral applications	305	Recognition of unrealized foreign currency exchange gains	None	None
Ostek Corp.	Manufacturing and trade of electronic components	N/A	-	None	None
Phison Technology Inc.	Sales and service office	N/A	-	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
Memoryexchange Corp.	Design and sale of flash memory related products	N/A	-	In the process of liquidation	In the process of liquidation
RealYou Investment Limited	Investment	N/A	-	None	None
Hefei Core Storage Electronic Limited	R&D, design, production, sales, technical services and electronic products software and hardware and rendering of related services.	N/A	-	Disposed	Disposed
Hefei Ruhan Electronic Technology Limited	R&D, design, sale, technical service of electronics hardware and software and related services and investment	N/A	-	None	None
Hefei Xinpeng Technology Co., Ltd.	The Company is engaged in the research and development, production, sales and technical services of electronic products and hardware and software, as well as general investment.	N/A	-	None	None
HOSIN Global Electronics Co., Ltd.	R&D, sales, technical services and electronic products software and hardware 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 2020 and 2021 are NT\$5,132 thousand and NT\$19,006 thousand respectively, accounting for 0.011% and 0.03% of the net operating revenue of the corresponding year. So, the change in interest rates has no significant impact on the overall operation of the Company.

By the end of 2021, the Company had short-term loans of NT\$439,216 thousand and long-term loans of NT\$195,636 thousand. 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 2021, the foreign exchange loss is NT\$76,326 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 2021 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 2021 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 so far. 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 2022:

- (1) The PS5025-E25 controller is a PCIe Gen4 SSD with an external DRAM design and a maximum performance of 7200MB/s, which is the best choice for extremely fast gamers.
- (2) The PS5020-E20 PCIe Gen4 enterprise SSD controller will have a maximum support capacity of 32TB and support special functions in enterprise-grade applications. It will be the most suitable choice for server system integrators.
- (3) The performance of new gen. PS5026-E26 PCIe Gen5 SSD controller will reach 13000MB/s, and it will be a flagship product in the PC market.
- (4) Continue to develop high-end enterprise-class SSD, support higher capacity, higher speed and strengthen interface protection mechanism, and cooperate with strategic partners to jointly develop to meet the needs of enterprise-class storage market.
- (5) Continue to develop smaller, higher-capacity and more power-saving controller solutions, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, as well as meet the high-speed storage needs of future mobile devices.
- (6) Continue to develop controllers that meet the automotive specifications, and continue to strengthen the certification of various automotive regulations, such as higher specifications of AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the rising demand for automotive electronics.

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 2022 is approximately NT\$ 10 billion.

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, Phison life plaza, and GRM 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: The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy," "QW220010 Information System Change Management Specification," "QW220011 Server Host Management Specifications," "QW220006 System Development and Maintenance Management Specifications," etc. On August 12, 2020, an audit meeting was held to review the improvement of information security and assess applicability, and on October 19, 2020, we passed the three-year re-examination of BSI British Standards Association ISO27001 international information security certification. The Company will keep strengthening colleagues and organization over information security protection, and establish joint defense mechanism with vendors or partners in future.

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

The Company has focused on the flash memory controllers and the relevant application systems to maintain the leadership in IC design technology, new concepts of application products, their production, flash memory peripheral applications and flash memory controller technology. Many products have been sold all over the world and receiving

orders from the major OEM and ODM companies. The Company 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 2021 to the printing date of the annual report.

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

In response to the growth of the Company's operation scale, the Board of Directors approved the new construction project of the Jhunan Phase V Plant Building by self-appointed construction on January 17, 2020. The main purpose of the new factory building is to increase the storage space, office area for additional R&D team and the overall employee function area, in order to match the Company's operation strategy and expect to bring in more talented people to strengthen the Company's R&D niche and accelerate the growth of the Company's operation scale. The total construction cost of the turnkey project is approximately NT\$1,398,000 thousand, and the construction period is expected to be from March 2020 to December 2022. In addition, on November 12, 2020, the Board of Directors resolved to build a factory and ancillary loading and unloading parking space in the Jhunan Science and Technology Park by self-appointed construction. The total cost of the turnkey project is approximately NT\$829,000 thousand. The construction period is expected to be from February 2021 to March 2022, in line with the growth of the Company's operation scale and number of employees and the construction of a new physical parking lot for employees in the Jhunan Phase V plant. On January 21, 2022, the Board of Directors approved the acquisition of land from a related party in Guangyuan Section, Zhunan Township, Miaoli County, for the purpose of building a new parking lot in response to the growth in the number of employees, for a total transaction amount of NT\$39,500 thousand. On the same day, the Board of Directors approved to acquire land in Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government by participating in a tender for the construction of a complex recreation hall or other space, and the Company won the tender on January 25 of the same year for a total transaction amount of NT\$346,660 thousand.

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 MLC (Multiple Cell Type), TLC (Triple-level Cell), 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 20% 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%: On November 18, 2021, Mr. Khein Seng Pua, the former chairman of the Board of Directors, resigned as a director and chairman of the Company. The Board of Directors elected Mr. Wee Kuan Gan, the Representative of Chenghe Investment Co., Ltd.

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

7.6.12 Litigation or Non-Litigation Events

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:

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").

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 Hsinchu District Court rendered judgment on February 18, 2022 to dismiss the Removal Action. SFIPC disagreed court judgment and filed petition for appeal to Taiwan High 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

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, and provide timely feedback 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. Audit Unit

The Company's Corporate Sustainability Management Committee will serve as the audit unit for Risk Management Committee. The auditing unit shall perform audits based on the spirit of independence and shall conduct audits of the Company's risk management-related operations at least once a year and report the audits to the Board of Directors.

5. 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	Wen Chiu Chung	M.S. in Accounting, Chung Yuan Christian University Accountant of Grant Thornton Taiwan
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
Deputy Director, Legal Office	Chien Hsun Chiu (Convener)	Master of Laws, University of Houston Attorney, New York, US Deputy Director, Phison Electronics Corp.

Implementation Status of the year

The Committee held 1 meeting in 2021, and the average attendance is 100\$. The meeting reports the performance of this year's risk management projects on "Water and Power Stability Management", "Information Security" and "Large-scale Infectious Disease Outbreak".

7.7 Other Major Events: None.

Chapter 8

Special Disclosure



Chapter 8 Special Disclosure

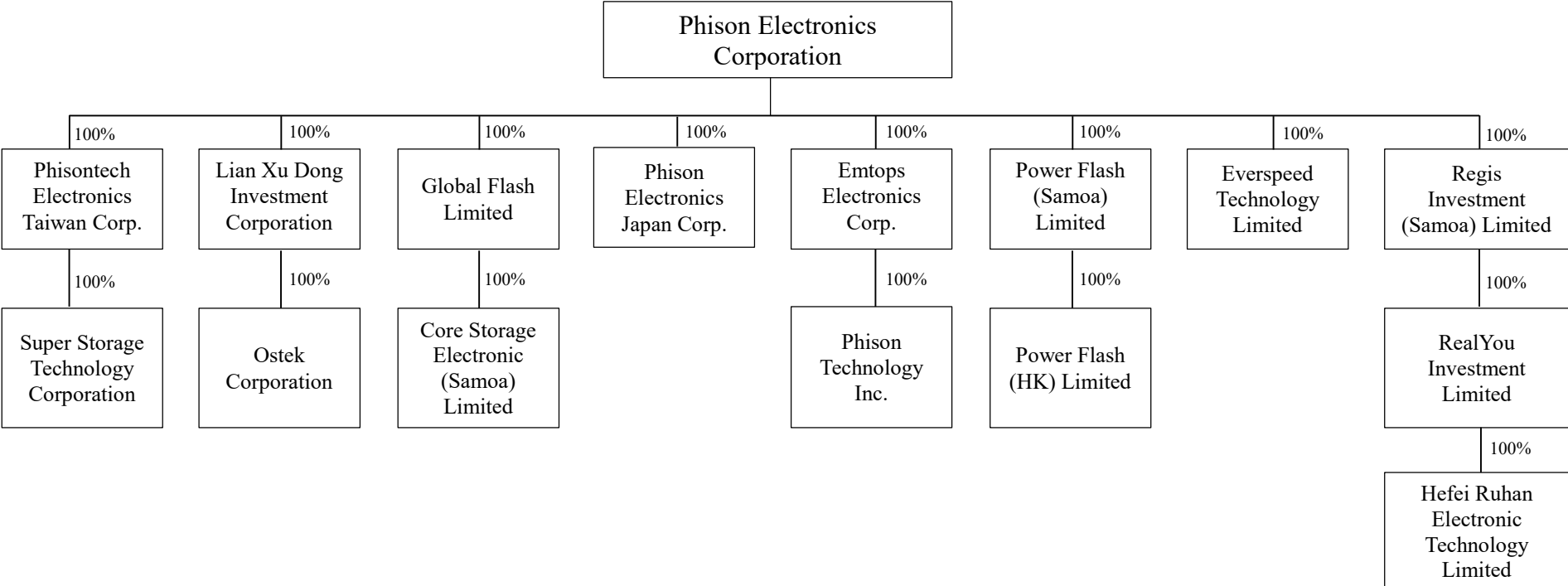
8.1 Summary of Affiliated Companies

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, 2021



(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, 2021, 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 (R.O.C.)	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 (R.O.C.)	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
Everspeed Technology Limited	2002.05	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	-	-	-	Trade of electronic components	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 (R.O.C.)	NTD	550,000	550,000	Investment and trade	Subsidiary
Ostek Corporation [Note 1]	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	9,000	9,000	Manufacturing 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 (R.O.C.)	NTD	348,426	348,426	Manufacturing and trade of electronic components	Sub-subsidiary
Power Flash (HK) Limited [Note 4]	2015.08	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	3,000	98,754	Sale, trade of electronic products	Sub-subsidiary

Enterprise Name	Date of incorporation	Address	Actual paid-in capital			Main Business or	Remark
			USD	CNY	Other		
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 and service office	Sub-subsidiary
Hefei Ruhan Electronic Technology Limited [Note 7]	2018.05	Room 2046, Building D8, Hefei Innovation Industrial Park, 2800 Wangjiang West Road, Hefei High-tech Zone	CNY	40,800	182,825	R&D, design, sale, technical service of electronics hardware and software and related services and investment	Sub-subsidiary

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

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

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 Manufacturing and trade of electronic components
- ④ R&D, design, production, sales, technical services and electronic products software and hardware 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.
Hefei Ruhan Electronic Technology Limited	Sales of flash memory peripheral application products.
Power Flash (HK) Limited	Sales of flash memory peripheral application products.
Phison Technology Inc.	Customer development and customer service in US.

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

Date: December 31, 2021, 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	Chee Kong Aw Yong	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	Chee Kong Aw Yong	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%
Everspeed Technology Limited	Parent company	Phison Electronics Corporation	1,000,000	100.00%
	Legal representative Director	Phison Electronics Corporation	1,000,000	100.00%
Regis Investment (Samoa) Limited	Parent company	Phison Electronics Corporation	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%

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
	Legal representative director	Chee Kong Aw Yong	0	0.00%
	Legal representative director	Shu Hua Chiu	0	0.00%
	Legal representative Supervisor	Wee Kuan Gan	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	Chee Kong Aw Yong	0	0.00%
Super Storage Technology Corporation	Director and Supervisor	Phisontech Electronics Taiwan Corp.	34,842,595	100.00%
	Legal representative Chairman	Chee Kong Aw Yong	0	0.00%
	Legal representative director	Wee Kuan Gan	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	Yu Chu Chang	0	0.00%
Phison Technology Inc.	Parent company	Emtops Electronics Corporation	3,000,000	100.00%
	Director	Zong Cheng Wu	0	0.00%
Hefei Ruhan Electronic Technology Limited	Parent company	Real You Investment Limited	CNY 40,800,000	100.00%
	Executive Director	Kuo Yi Cheng	0	0.00%
	Supervisor	Wan Xin Liao	0	0.00%

8.1.1.6 Operation Summary of the Affiliates

Date: December 31, 2021, 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	601,299	11,772	589,527	61,512	57,991	45,665	0.70
Global Flash Limited	726,307	2,764,669	0	2,764,669	0	(40)	76,048	—
Phison Electronics Japan Corp.	41,655	31,372	2,150	29,222	18,144	17,497	980	—
Emtops Electronics Corporation	380,000	359,181	200	358,981	0	(637)	4,730	0.12
Power Flash (Samoa) Limited	150,190	135,870	0	135,870	0	(106)	(661)	—
Everspeed Technology Limited	-	108,037	0	108,037	0	(46)	2,904	—
Regis Investment (Samoa) Limited	655,995	1,254,527	0	1,254,527	0	(48)	63,742	—
Phisontech Electronics Taiwan Corp.	550,000	666,247	1,498	664,749	0	(316)	51,881	0.94
Ostek Corporation	9,000	35,140	6,205	28,935	35,100	590	595	0.66
Core Storage Electronic(Samoa) Limited	636,593	2,717,008	0	2,717,008	0	(795)	59,096	—
Super Storage Technology Corporation	348,426	855,038	350,459	504,579	439,134	29,831	53,782	1.54
Power Flash (HK) Limited	98,754	86,327	42	86,285	0	(84)	53	—
RealYou Investment Limited	654,726	1,253,459	125	1,253,334	0	(166)	63,824	—
Phison Technology Inc.	90,419	151,086	53,518	97,568	300,697	10,138	5,628	—
Hefei Ruhan Electronic Technology Limited	182,825	145,593	0	145,593	0	(47)	(23,107)	—

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, 2021 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:

Date: May 5, 2022

Item	Date of approval by shareholders' meeting: July 26, 2021 Approved quantity: Under 18,000,000 shares					Date of approval by Board of Directors: March 4, 2022 Approved quantity: Under 18,000,000 shares				
	Securities under private placement	Common stock					Common stock			
Date of resolution and approved quantity	[Note 1]					[Note 2]				
Basis and rationale for price setting	[Note 1]					[Note 2]				
Selection method of specified parties	The specified parties should meet the requirements in Article 43-6 of Securities and Exchange Act and the Order No. Tai-Tasi-Cheng 0910003455 of FSC and be limited to strategic investors.					The specified parties should meet the requirements in Article 43-6 of Securities and Exchange Act and the Order No. Tai-Tasi-Cheng 0910003455 of FSC and be limited to strategic investors.				
Reasons for private placement	Considering the timeliness and feasibility of the capital market, issuance cost, private placement, as well as the limitation of trading within three years to enforce the long-term partnership, the Company issues new shares through private placement by cash.					Considering the timeliness and feasibility of the capital market, issuance cost, private placement, as well as the limitation of trading within three years to enforce the long-term partnership, the Company issues new shares through private placement by cash.				
Date of payment and completion	N/A					N/A				
Information on contributing parties	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations
Actual Purchase (or Conversion) Price	N/A					N/A				
Difference Between the Actual Purchase (or Conversion) Price and the Reference Price	N/A					N/A				
Impact of Private Placement on Shareholders' Equity	No material impact					No material impact				
Use of funds from private placement and progress of proposed plans	N/A					N/A				
Effectiveness of Private Placement	[Note 1]					N/A				

[Note 1] The Board of Directors has decided that this private placement is being canceled on March 4, 2022. This decision will be reported at the 2022 shareholders' meeting.

[Note 2] This private placement has been approved by the Board of Directors on March 4, 2022, and will be discussed at the 2022 shareholders' meeting for approval.

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.

Chapter 9 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, 2021 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 4, 2022



安侯建業聯合會計師事務所
KPMG

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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, 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021, 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 Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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. Whether the Group recognizes revenue depending on the trade term in each individual sale contract to ensure the performance obligation has been satisfied by transferring control over a product to a customer is considered to be complex. 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 testing internal controls over sales and collection cycle; understanding the Group's main revenue types, its related sales agreements, and trade terms; on a sample basis, inspecting related sales contracts or sales order and other trade documents to assess whether the timing of revenue recognition was depending on the trade term agreed with customers; performing a sample test 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(6) "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

1. Issuing the audit opinion on the parent company only financial statements

Phison Electronics Corp. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2021 and 2020. We have issued an unmodified opinion with other matter paragraph on as of and for the year ended December 31, 2021. The predecessor auditor has issued an unmodified opinion with emphasis of matter paragraph as of and for the year ended December 31, 2020.

2. Predecessor auditor issued the audit opinion with other matters paragraph

The consolidated financial statements of the Group as of and for the year ended December 31, 2020 were audited by another auditor, who have issued an unmodified opinion with emphasis of matter paragraph on March 11, 2021.



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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 Wan-Yuan Yu.

KPMG

Taipei, Taiwan (Republic of China)
March 4, 2022

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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020		December 31, 2021		December 31, 2020		
	Amount	%	Amount	%	Amount	%	Amount	%	
Assets									
Current assets:									
1100 Cash and cash equivalents (note 6(1))	\$ 19,040,947	30	14,961,122	31	2100		\$ 439,216	1	
1110 Financial assets at fair value through profit or loss—current (note 6(2))	1,206,954	2	5,494,720	12	2130		203,044	-	
1136 Financial assets at amortized cost—current (notes 6(3) and 8)	568,694	1	293,860	1	2170		5,836,376	10	
1170 Accounts receivable, net (note 6(5))	5,915,737	9	5,348,420	11	2180		3,200,307	5	
1180 Accounts receivable—related parties, net (notes 6(5) and 7)	2,813,524	4	669,281	1	2200		9,821,146	16	
1200 Other receivables (notes 6(5) and 7)	623,912	1	305,918	1	2230		1,223,434	2	
1220 Tax assets	2,905	-	4,635	-	2280		24,027	-	
130X Inventories (note 6(6))	19,496,534	31	10,141,479	21	2320		30,947	-	
1410 Prepayments	24,967	-	74,217	-	2399		1,048,696	2	
1479 Other current assets	2,413	-	33,273	-			21,827,193	36	
	49,696,587	78	37,326,925	78				25	
Non-current assets:									
1510 Financial assets at fair value through profit or loss—non-current (note 6(2))	451,569	1	437,236	1	2530		3,412,855	5	
1517 Financial assets at fair value through other comprehensive income—non-current (note 6(4))	634,757	1	360,304	1	2540		164,689	-	
1550 Investments accounted for using the equity method (note 6(7))	4,155,042	7	4,007,874	8	2570		183,177	-	
1600 Property, plant and equipment (notes 6(10) and 8)	6,650,562	11	4,646,540	10	2580		16,003	-	
1755 Right-of-use assets (note 6(11))	39,276	-	32,384	-	2640		104,897	-	
1780 Intangible assets (note 6(12))	314,671	-	313,894	1	2645		4,109	-	
1840 Deferred tax assets (note 6(19))	495,193	1	375,960	1			3,885,730	5	
1900 Other non-current assets (note 9(2))	583,700	1	62,835	-			25,712,923	41	
	13,324,770	22	10,237,027	22				1,970,740	3
Total assets	\$ 63,021,357	100	47,563,952	100			\$ 63,021,357	100	
Liabilities and Equity									
Current liabilities:									
Short-term borrowings (note 6(13))					2100			1,480,480	
Contract liabilities—current					2130			35,553	
Accounts payable					2170			2,166,195	
Accounts payable—related parties (note 7)					2180			1,289,722	
Other payables (notes 6(14) and 7)					2200			6,045,010	
Tax payable					2230			93,608	
Lease liabilities—current (note 6(11))					2280			16,420	
Long-term borrowings, current portion (note 6(16))					2320			30,486	
Other current liabilities (note 6(15))					2399			605,208	
								11,762,682	
Non-current liabilities:									
Bonds payable (note 6(17))					2530			-	
Long-term borrowings (note 6(16))					2540			195,636	
Deferred tax liabilities (note 6(19))					2570			325,441	
Lease liabilities—non-current (note 6(11))					2580			16,212	
Net defined benefit liabilities (note 6(18))					2640			103,528	
Guarantee deposits received					2645			4,986	
								645,803	
Total liabilities								12,408,485	
Equity (note 6(20)):									
Common shares					3100			1,970,740	
Capital surplus					3200			7,238,436	
Retained earnings					3300			27,995,974	
Other equity interest					3400			(165,341)	
								35,155,467	
Total liabilities and equity	\$ 63,021,357	100	47,563,952	100			\$ 63,021,357	100	

(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, 2021 and 2020

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

		2021		2020	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(23) and 7)	\$ 62,557,192	100	48,496,522	100
5000	Operating costs (notes 6(6), (10), (18), (24) and 7)	43,402,812	69	36,236,716	75
	Gross profit from operations	19,154,380	31	12,259,806	25
5910	Unrealized profit on transactions with associates	(54,596)	-	(12,331)	-
	Realized gross profit	19,099,784	31	12,247,475	25
	Operating expenses (notes 6(10), (18), (24) and 7):				
6100	Marketing expenses	1,034,735	2	876,567	2
6200	General and administrative expenses	846,159	1	788,866	1
6300	Research and development expenses	8,127,841	13	6,752,676	14
6450	Expected credit loss (gain) (note 6(5))	6,600	-	(60,241)	-
	Total operating expenses	10,015,335	16	8,357,868	17
	Net operating income	9,084,449	15	3,889,607	8
	Non-operating income and expenses:				
7010	Other income (notes 6(25) and 7)	156,060	-	430,640	1
7020	Other gains and losses (notes 6(7), (9) and (25))	187,831	-	4,856,299	10
7050	Finance costs (note 6(25))	(19,006)	-	(5,132)	-
7100	Interest income (note 6(25))	37,546	-	42,993	-
7060	Shares of profit of associates accounted for using the equity method (note 6(7))	290,734	-	479,022	1
		653,165	-	5,803,822	12
7900	Profit before tax	9,737,614	15	9,693,429	20
7950	Income tax expenses (note 6(19))	1,590,399	2	986,678	2
8200	Net profit for the year	8,147,215	13	8,706,751	18
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(354)	-	(7,434)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26))	99,481	-	(107,664)	-
8320	Shares of other comprehensive income of associates accounted for using the equity method	287,188	-	60,414	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(19))	71	-	1,487	-
	Total items that will not be reclassified subsequently to profit or loss	386,386	-	(53,197)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(106,472)	-	106,330	-
8399	Income tax related to items that may be reclassified subsequently (note 6(19))	-	-	(30,630)	-
	Total items that may be reclassified subsequently to profit or loss	(106,472)	-	75,700	-
8300	Other comprehensive income	279,914	-	22,503	-
8500	Total comprehensive income	<u>\$ 8,427,129</u>	<u>13</u>	<u>8,729,254</u>	<u>18</u>
	Net profit attributable to:				
8610	Owners of the Company	\$ 8,147,215	13	8,699,044	18
8620	Non-controlling interests	-	-	7,707	-
		<u>\$ 8,147,215</u>	<u>13</u>	<u>8,706,751</u>	<u>18</u>
	Comprehensive income attributable to:				
8710	Owners of the Company	\$ 8,427,129	13	8,721,255	18
8720	Non-controlling interests	-	-	7,999	-
		<u>\$ 8,427,129</u>	<u>13</u>	<u>8,729,254</u>	<u>18</u>
	Earnings per share (New Taiwan Dollars) (note 6(22)):				
9750	Basic earnings per share	<u>\$ 41.34</u>		<u>44.14</u>	
9850	Diluted earnings per share	<u>\$ 40.09</u>		<u>43.01</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, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Total other equity interest									Total equity	
	Common shares	Capital surplus	Legal reserve	Special reserve	Retained earnings		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total		Non-controlling interests
Balance at January 1, 2020	\$ 1,970,740	6,724,104	3,850,715	380,927	16,411,959	20,643,601	(112,499)	(63,626)	29,162,320	26,308	29,188,628
Net profit for the year	-	-	-	-	8,699,044	8,699,044	-	-	8,699,044	7,707	8,706,751
Other comprehensive income (loss) for the year	-	-	-	-	(5,947)	(5,947)	75,408	(47,250)	22,211	292	22,503
Total comprehensive income (loss) for the year	-	-	-	-	8,693,097	8,693,097	75,408	(47,250)	8,721,255	7,999	8,729,254
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	455,816	-	(455,816)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(2,561,962)	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)
Reversal of special reserve	-	-	-	(204,802)	204,802	-	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	(335,315)	-	-	(28,215)	(28,215)	-	-	(363,530)	94	(363,436)
Changes in ownership interests in subsidiaries	-	(426)	-	-	-	-	-	-	(426)	333	(93)
Share-based payments	-	197,810	-	-	-	-	-	-	197,810	-	197,810
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(34,734)	(34,734)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	17,374	17,374	-	(17,374)	-	-	-
Balance at December 31, 2020	\$ 1,970,740	6,586,173	4,306,531	176,125	22,281,239	26,763,895	(37,091)	(128,250)	35,155,467	-	35,155,467
Net profit for the year	-	-	-	-	8,147,215	8,147,215	-	-	8,147,215	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	(283)	(283)	(106,472)	386,669	279,914	-	279,914
Total comprehensive income (loss) for the year	-	-	-	-	8,146,932	8,146,932	(106,472)	386,669	8,427,129	-	8,427,129
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	1,223,777	-	(1,223,777)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(6,503,442)	(6,503,442)	-	-	(6,503,442)	-	(6,503,442)
Reversal of special reserve	-	-	-	(20,557)	20,557	-	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	268,525	-	-	(422,983)	(422,983)	-	-	(154,458)	-	(154,458)
Share-based payments	-	281,369	-	-	-	-	-	-	281,369	-	281,369
Due to recognition of equity component of convertible bonds	-	102,369	-	-	-	-	-	-	102,369	-	102,369
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	11,572	11,572	-	(11,572)	-	-	-
Balance at December 31, 2021	\$ 1,970,740	7,238,436	5,530,308	155,568	22,310,098	27,995,974	(143,563)	246,847	37,308,434	-	37,308,434

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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	2021	2020
Cash flows from operating activities:		
Profit before income tax	\$ 9,737,614	9,693,429
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	470,642	377,747
Amortization expense	271,835	200,961
Expected credit loss (reversal gain)	6,600	(60,241)
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	(266,703)	23,814
Financial costs	19,006	5,132
Interest income	(37,546)	(42,993)
Dividend income	(95,052)	(82,471)
Share-based payments	281,369	197,810
Shares of profit of associates accounted for using the equity method	(290,734)	(479,022)
Loss on disposal of property, plant and equipment	-	2,282
Loss (gain) on disposal of investments accounted for using the equity method	272	(5,202,580)
Unrealized profit on transactions with associates	54,596	12,331
Unrealized foreign exchange loss	31,423	197,736
Write-down of inventories	135,888	203,123
Recognition of refund liabilities	555,242	261,975
Gains on modification of lease	(6)	(468)
Total adjustments to reconcile profit (loss)	1,136,832	(4,384,864)
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	(2,748,366)	(205,299)
Other receivables	(314,156)	126,753
Inventories	(9,490,943)	1,048,001
Prepayments	49,250	190,914
Other current assets	30,802	(10,615)
Contract liabilities	167,491	(92,481)
Accounts payable (including related parties)	5,605,507	(34,107)
Other payable	1,830,736	1,669,061
Other current liabilities	(169,088)	(171,443)
Net defined benefit liability	1,015	1,149
Deferred revenue	-	(1,060)
Total changes in operating assets and liabilities	(5,037,752)	2,520,873
Cash inflow generated from operations	5,836,694	7,829,438
Interest paid	(19,143)	(4,621)
Income taxes paid	(720,321)	(1,222,691)
Net cash flows from operating activities	5,097,230	6,602,126

(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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	<u>2021</u>	<u>2020</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(174,972)	(3,825)
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	144,485
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	246
Acquisition of financial assets at amortized cost	(3,652,682)	(396,026)
Proceeds from disposal of financial assets at amortized cost	3,407,878	121,862
Acquisition of financial assets at fair value through profit or loss	(203,338)	(2,167,078)
Proceeds from disposal of financial assets at fair value through profit or loss	4,721,119	92,379
Proceeds from capital reduction of financial assets at fair value through profit and loss	21,450	19,140
Acquisition of investments accounted for using the equity method	-	(217,725)
Net cash inflow on disposal of associates	-	1,776,295
Net cash flow from acquisition of subsidiaries	-	(316,430)
Proceeds from disposal of subsidiaries	-	1,713,062
Proceeds from capital reduction of investments accounted for using the equity method	54,457	-
Acquisition of property, plant and equipment	(2,340,904)	(1,057,251)
Proceeds from disposal of property, plant and equipment	-	177
Increase in refundable deposits	(514,336)	(6,458)
Acquisition of intangible assets	(272,624)	(247,510)
Increase in prepayments for equipment	(50,038)	(53,049)
Interest received	36,777	43,189
Dividends received	166,365	119,907
Net cash flows from (used in) investing activities	<u>1,199,152</u>	<u>(434,610)</u>
Cash flows from financing activities:		
Increase in short-term loans	7,822,390	4,062,516
Decrease in short-term loans	(8,866,888)	(2,605,023)
Repayments of long-term borrowings	(30,486)	(106,700)
Proceeds from issuing bonds (excluding issuance costs)	3,511,309	-
Decrease in guarantee deposits received	(877)	(254)
Payment of lease liabilities	(21,392)	(15,506)
Cash dividends paid	(4,532,702)	(2,561,962)
Change in non-controlling interests	-	(34,734)
Net cash flows used in financing activities	<u>(2,118,646)</u>	<u>(1,261,663)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(97,911)</u>	<u>(149,988)</u>
Net increase in cash and cash equivalents	4,079,825	4,755,865
Cash and cash equivalents at beginning of period	<u>14,961,122</u>	<u>10,205,257</u>
Cash and cash equivalents at end of period	<u>\$ 19,040,947</u>	<u>14,961,122</u>

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, 2021 and 2020
(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 address of its registered office and principal place of business is 10F-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County. 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 4, 2022.

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, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

The Group has initially adopted the (following) new amendments, which do not have a significant impact on its consolidated financial statements, from April 1, 2021:

- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

- (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, 2022, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

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 IAS 1 “Classification of Liabilities as Current or Non-current”
- 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”

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 significant accounting policies

The significant 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
Notes to the Consolidated Financial Statements

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
Notes to the Consolidated Financial Statements

B. List of subsidiaries in the consolidated financial statements

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

<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding</u>		<u>Note</u>
			<u>December 31, 2021</u>	<u>December 31, 2020</u>	
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	Phisontech Electronics (Malaysia) Sdn. Bhd	Design, production and sale of flash memory controllers and peripheral system applications	-	-	Note 1
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	100%	100%	
The Company	Regis Investment (Samoa) Limited	Investment	100%	100%	
Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	-	Note 2
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100%	100%	
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic products and technical support service and rendering of related services	-	-	Note 2
Hefei Core Storage Electronic Limited	Hefei Yichao Electronics Technology Ltd.	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	-	-	Note 2
Hefei Core Storage Electronic Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	-	Note 2
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100%	100%	

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

<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding</u>		<u>Note</u>
			<u>December 31, 2021</u>	<u>December 31, 2020</u>	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100%	100%	
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	-	100%	Note 3
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100%	100%	
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.	Sales and service office	100%	100%	
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100%	100%	Note 4

Note 1: Phisontech Electronics (Malaysia) Sdn. Bhd ended its operations in October 2020, and completed the liquidation procedures.

Note 2: Hefei Core Storage Electronic Limited acquired 100% equity of Phisontech (Shenzhen) Limited from Global Flash Limited in July 2020. This transaction was regarded as a reorganization under common control. In August 2020, the Board of Directors resolved that Core Storage Electronic (Samoa) Limited disposed 46.48% ownership of Hefei Core Storage Electronic Limited and the disposal transaction was settled in November 2020. As losing the control of Hefei Core Storage Electronic Limited and its subsidiaries (the group of Hefei Core Storage Electronic), the Group was no longer to include the group of Hefei Core Storage Electronic in the consolidated financial statements. And then, the Group accounted the residual ownership of Hefei Core Storage Electronic Limited as the investments accounted for using the equity method (as associate). In November 2020 and February 2021, the Group subscribed the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of Group' s ownership in Hefei Core Storage Electronic Limited. Please refer to note 6(9) for the information.

Note 3: Memoryexchange Corporation ended its operations in March 2021 and the liquidation procedure is in progress.

Note 4: The Group acquired 100% equity of Super Storage Technology Corporation in July 2020.

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

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

(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.

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

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

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.

(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.

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

(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.

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.

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

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.

(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) 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.

(d) 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.

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

(e) 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.

Phison Electronics Corp. and subsidiaries
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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

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

- (c) Building— electrical engineering: 20 years
- (d) Testing equipment: 3 to 7 years
- (e) Office equipment: 3 to 7 years
- (f) Mechanical equipment: 1 to 6 years
- (g) Other equipment: 2 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 rereasurement) 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. Rereasurement, 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. Rereasurement 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 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.

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.

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.

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(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.

(20) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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 42.63% of the outstanding shares of HOSIN Global Electronics Co., Ltd. (the investee). However, due to the multiple voting right system, the Group only obtained 28.73% of the voting rights. The remaining 58.29% 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(6) for further description of the valuation of inventories.

6. Description of significant accounts

(1) Cash and cash equivalent

	December 31, 2021	December 31, 2020
Cash, demand deposits and check deposits	\$ 13,292,481	10,490,299
Cash equivalents – time deposits	5,748,466	4,470,823
	<u>\$ 19,040,947</u>	<u>14,961,122</u>

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.

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

	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss – current:		
Beneficiary certificates – open-end funds	\$ 473,978	4,989,343
Domestic listed stock	728,076	505,377
Derivative instruments – convertible bonds (note 6(17))	4,900	-
	<u>\$ 1,206,954</u>	<u>5,494,720</u>

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	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss— non-current:		
Domestic private equity funds	\$ 39,909	42,033
Domestic unlisted stocks	302,867	314,214
Foreign unlisted stocks	108,793	80,989
	\$ 451,569	437,236

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost—current

	December 31, 2021	December 31, 2020
Segregated foreign exchange deposit account for Offshore Funds	\$ 528,235	253,451
Pledged time deposits	40,459	40,409
	\$ 568,694	293,860

A. The Group obtained approvals from the Ministry of Finance in August 2020, January 2021, and March 2021, respectively, to repatriate offshore funds in accordance with “The Management, Utilization, and Taxation of Repatriated Offshore Funds Act” (the Act). The repatriated amount, net of tax, was deposited into segregated foreign exchange deposit account (segregated account). The deposit in segregated account is subject to restrictions based on the Act.

B. 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.

C. 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, 2021	December 31, 2020
Domestic unlisted stocks	\$ 294,433	139,069
Foreign unlisted stocks	340,324	221,235
	\$ 634,757	360,304

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 were pledge as collateral.

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

	December 31, 2021	December 31, 2020
Accounts receivable	\$ 5,955,927	5,389,529
Accounts receivable—related parties	2,821,043	669,281
	8,776,970	6,058,810
Less: loss allowance	(47,709)	(41,109)
Accounts receivable, net	\$ 8,729,261	6,017,701
	December 31, 2021	December 31, 2020
Tax refunds receivable	\$ 470,137	258,092
Factored accounts receivable	42,292	15,790
Liquidation refund receivable from subsidiary	70,991	-
Others	40,492	32,036
Less: loss allowance	-	-
Other receivables	\$ 623,912	305,918

As of January 1, 2020, the ending balance of accounts receivable, net (including related parties) was \$5,933,970 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.

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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, 2021		
	Gross carrying amount	Weighted-aver age loss rate	Loss allowance
Current	\$ 8,373,036	0.21%	17,670
1~60 days past due	384,532	10.76%	17,192
61~90 days past due	1,145	36.59%	419
91~120 days past due	10,521	45.26%	4,762
121~150 days past due	518	86.48%	448
More than 151 days past due	7,218	100.00%	7,218
	\$ 8,776,970		47,709

	December 31, 2020		
	Gross carrying amount	Weighted-aver age loss rate	Loss allowance
Current	\$ 5,739,988	0.37%	18,516
1~60 days past due	311,667	5.59%	17,414
61~90 days past due	7,128	72.33%	5,156
91~120 days past due	27	85.19%	23
	\$ 6,058,810		41,109

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

	2021	2020
Balance, beginning of the period	\$ 41,109	97,378
Impairment losses recognized (reversed)	6,600	(60,241)
Acquisitions through business combinations	-	4,151
Disposal of subsidiaries	-	(179)
Balance, end of the period	\$ 47,709	41,109

None of the above accounts receivable 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.

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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, 2021				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate	Transferring Terms
HSBC Bank (Taiwan) Limited	<u>\$ 1,748</u>	<u>1,528</u>	0.55%~0.65%	Note 1~4

December 31, 2020				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate	Transferring Terms
HSBC Bank (Taiwan) Limited	<u>\$ 690</u>	<u>554</u>	0.55%~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, 2021 and 2020, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$42,292 thousand and \$15,790 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.

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(6) Inventories

	December 31, 2021	December 31, 2020
Raw materials	\$ 11,810,664	5,298,782
Work in process	4,647,351	3,525,646
Semi-finished goods	2,902,052	1,267,154
Finished goods	136,467	49,897
	<u>\$ 19,496,534</u>	<u>10,141,479</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2021 and 2020 were \$43,402,812 thousand and \$36,236,716 thousand, respectively.

The costs of goods sold for the years ended December 31, 2021 and 2020 included inventory write-downs of \$135,888 thousand and \$203,123 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(7) Investments accounted for using the equity method

	December 31, 2021	December 31, 2020
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,402,515	1,973,587
EpoStar Electronics (BVI) Corporation	421,077	269,809
Hefei Xinpeng Technology Co., Ltd.	135,886	161,207
ProGrade Digital Inc.	98,019	88,400
Nextorage Corporation	74,263	98,233
Microtops Design Corporation	23,282	22,977
Hefei Core Storage Electronic Limited	-	1,393,661
	<u>\$ 4,155,042</u>	<u>4,007,874</u>

A. Associates which are material to the Group consisted of the followings:

Name of Associates	Principal Activity	Main Operating Location/ Registered Country	Ownership interest %	
			December 31, 2021	December 31, 2020
HOSIN Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	China	42.63%	34.43%

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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

	December 31, 2021	December 31, 2020
Current assets	\$ 8,691,933	3,721,251
Non-current assets	5,079,009	4,482,172
Current liabilities	(5,280,167)	(1,263,254)
Non-current liabilities	<u>(444,712)</u>	<u>(359,690)</u>
Net assets	<u>\$ 8,046,063</u>	<u>6,580,479</u>
Net assets attributable to non-controlling interests	<u>\$ -</u>	<u>836,393</u>
Net assets attributable to the associate' s shareholders	<u>\$ 8,046,063</u>	<u>5,744,086</u>
	2021	2020
Operating revenue	<u>\$ 16,700,164</u>	<u>5,274,525</u>
Net profit (loss)	\$ 592,721	253,576
Other comprehensive income	<u>(32,713)</u>	<u>(56,225)</u>
Total comprehensive income	<u>\$ 560,008</u>	<u>197,351</u>
Total comprehensive income attributable to the associate' s shareholders	<u>\$ 565,752</u>	<u>203,749</u>
Total comprehensive income attributable to non-controlling interests	<u>\$ (5,744)</u>	<u>(6,398)</u>
	December 31, 2021	December 31, 2020
Summarized information of the carrying amount of significant associates	<u>\$ 3,402,515</u>	<u>1,973,587</u>
	2021	2020
Attributable to the Group:		
Net profit	\$ 267,210	92,744
Other comprehensive income	<u>(39,993)</u>	<u>18,031</u>
Total comprehensive income	<u>\$ 227,217</u>	<u>110,775</u>

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Due to the change in the percentage of ownership interest in the associates in 2020, the Group recognized capital surplus of \$31,732 thousand.

The Group subscribed 54,500 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of 24.59% ownership (the amount of contribution was CN\$54,500 thousand) in Hefei Core Storage Electronic Limited in November 2020. In addition, the Group subscribed 54,095 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of residual 24.41% ownership (the amount of contribution was CN\$54,095 thousand) in Hefei Core Storage Electronic Limited in February 2021.

Besides the abovementioned stock transfer, the Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2021, therefore, the changes in equity of associate recognized in the years of 2021 and 2020 by the Group amounted to \$(145,046) thousand and \$(93,593) thousand, respectively. In 2021, the retained earnings of \$416,037 thousand was reversed and the capital surplus of \$270,991 thousand was recognized. In 2020, the retained earnings of \$28,215 thousand was reversed and the capital surplus previously generated from long-term investment of \$65,378 thousand was reversed.

As of December 31, 2021, the Group's percentage of ownership interest in HOSIN Global Electronics Co., Ltd. (SZ) was 42.63%.

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

	December 31, 2021	December 31, 2020
Summarized information of the carrying amount of associates that were not individually material	\$ 752,527	2,034,287
	2021	2020
Attributable to the Group:		
Net profit	\$ 23,524	386,278
Other comprehensive income	259,762	64,298
Total comprehensive income	\$ 283,286	450,576

Disposing of its ownership interests in Kingston Solutions Inc. to Kingston Technology Corporation, a non-related party, with \$1,781,640 thousand in September 2020, the Group reversed capital surplus of \$263,344 thousand and recognized a gain on the disposal of investment of \$967,348 thousand.

Due to operational strategy, the Group increased its investment in ProGrade Digital, Inc. and Nextorage Corporation's common shares with a total of \$164,671 thousand for the year of 2020.

In 2021, due to a capital reduction of EpoStar Electronics (BVI) Corporation amounting to \$54,457 thousand and the change of percentage of ownership interests in ProGrade Digital, Inc., the changes in equity of associate recognized amounted to \$(9,412) thousand, including reversals of capital surplus of \$2,466 thousand and retained earnings of \$6,946 thousand.

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Due to the change in the percentage of ownership interest in EpoStar Electronics (BVI) Corporation and ProGrade Digital, Inc. in 2020, the Group reversed capital surplus of \$38,325 thousand.

C. Pledged

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

(8) Business Combinations

Based on the Group's development strategy, Phisontech Electronics Taiwan Corp., a subsidiary of the Group, acquired 100% ownership in Super Storage Technology Corporation in cash with NT\$13 per share at July 1, 2020.

The associated costs of acquisition of \$2,460 thousand were excluded from the consideration transferred and were recognized as other expenses.

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

Current assets :	
Cash and cash equivalents	\$ 136,524
Accounts receivable, net	39,020
Inventories	6,120
Other current assets	6,883
Non-current assets :	
Financial assets at fair value through other comprehensive income — non-current	4,500
Property, plant and equipment	683,224
Intangible assets	646
Other non-current assets	903
Current liabilities :	
Short-term borrowings	(30,000)
Accounts payable	(2,676)
Other current liabilities	(54,053)
Non-current liabilities :	
Long-term borrowings	(332,822)
Other non-current liabilities	(5,315)
	<u><u>\$ 452,954</u></u>

B. Net cash outflow on the acquisition of subsidiaries

Consideration paid in cash	\$ 452,954
Less: cash and cash equivalent acquired	<u>(136,524)</u>
	<u><u>\$ 316,430</u></u>

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(9) Loss control of subsidiaries

On August 4, 2020, the Company's Board of Directors resolved that Core Storage Electronic (Samoa) Limited, a subsidiary of the Company, disposed 46.48% ownership of Hefei Core Storage Electronic Limited at CN\$6 per contribution (the disposed amount of contribution was CN\$103,000 thousand), and the disposal amount was CN\$618,000 thousand. The transaction was settled in November 2020. As the Group lost control of Hefei Core Storage Electronic Limited and its subsidiaries, it was no longer to include them in the consolidated financial statements and the Group transferred the residual ownership into investments accounted for using equity method at its fair value. The difference between fair value and carrying value was recognized as gain on disposal of subsidiaries.

A. The carrying amounts of assets and liabilities at the date of loss of control

Current assets :	
Cash and cash equivalents	\$ 957,833
Financial assets at amortized cost	36,577
Accounts receivable, net	154,937
Inventories	146,162
Other current assets	69,179
Non-current assets :	
Property, plant and equipment	23,011
Intangible assets	1,412
Investments accounted for using the equity method	159,552
Other non-current assets	5,693
Current liabilities :	
Accounts payable	(114,996)
Other payables	(43,209)
Other current liabilities	(48,980)
Non-current liabilities :	
Other non-current liabilities	(3,000)
Net assets of disposal	<u>\$ 1,344,171</u>

B. Gain on disposal of subsidiaries

Consideration received	\$ 2,670,895
Net assets of disposal	(1,344,171)
Non-controlling interests	60,659
Reclassification from equity to profit or loss in respect of loss control of subsidiaries	(104,099)
Retained investment at fair value	2,809,567
Bank fees	<u>2</u>
Gain on disposal	<u>\$ 4,092,853</u>

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C. Net cash inflow on disposal of subsidiaries

Consideration received	\$ 2,670,895
Less: Cash and cash equivalents balance disposed of	<u>(957,833)</u>
	<u>\$ 1,713,062</u>

(10) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group were as follows:

	Land	Buildings	Mechanical and testing equipment	Office and other equipment	Construction in progress	Total
Cost:						
Balance at January 1, 2021	\$ 1,144,737	2,603,639	1,096,016	222,036	712,397	5,778,825
Additions for the period	618,083	19,844	418,291	85,051	1,269,742	2,411,011
Disposal for the period	-	-	(175,940)	(37,300)	-	(213,240)
Reclassification	-	3,034	35,018	5,452	-	43,504
Effect of movements in exchange rates	-	-	(1,821)	(521)	-	(2,342)
Balance at December 31, 2021	<u>\$ 1,762,820</u>	<u>2,626,517</u>	<u>1,371,564</u>	<u>274,718</u>	<u>1,982,139</u>	<u>8,017,758</u>
Balance at January 1, 2020	\$ 958,807	2,091,905	918,169	110,643	-	4,079,524
Additions for the period	-	13,448	268,669	57,426	712,397	1,051,940
Acquisitions through business combinations	185,930	498,286	84,946	77,296	3,391	849,849
Disposal for the period	-	-	(126,755)	(13,390)	-	(140,145)
Disposal of subsidiaries	-	-	(65,998)	(12,293)	-	(78,291)
Reclassification	-	-	17,495	2,340	(3,391)	16,444
Effect of movements in exchange rates	-	-	(510)	14	-	(496)
Balance at December 31, 2020	<u>\$ 1,144,737</u>	<u>2,603,639</u>	<u>1,096,016</u>	<u>222,036</u>	<u>712,397</u>	<u>5,778,825</u>
Depreciation:						
Balance at January 1, 2021	\$ -	518,527	506,588	107,170	-	1,132,285
Depreciation for the period	-	78,196	304,724	65,809	-	448,729
Disposal for the period	-	-	(175,940)	(37,300)	-	(213,240)
Effect of movements in exchange rates	-	-	(478)	(100)	-	(578)
Balance at December 31, 2021	<u>\$ -</u>	<u>596,723</u>	<u>634,894</u>	<u>135,579</u>	<u>-</u>	<u>1,367,196</u>
Balance at January 1, 2020	\$ -	352,477	382,044	62,053	-	796,574
Depreciation for the period	-	70,580	254,941	36,384	-	361,905
Acquisitions through business combinations	-	95,470	41,795	29,360	-	166,625
Disposal of subsidiaries	-	-	(45,702)	(9,578)	-	(55,280)
Disposal for the period	-	-	(126,606)	(11,080)	-	(137,686)
Effect of movements in exchange rates	-	-	116	31	-	147
Balance at December 31, 2020	<u>\$ -</u>	<u>518,527</u>	<u>506,588</u>	<u>107,170</u>	<u>-</u>	<u>1,132,285</u>
Carrying amounts:						
Balance at December 31, 2021	<u>\$ 1,762,820</u>	<u>2,029,794</u>	<u>736,670</u>	<u>139,139</u>	<u>1,982,139</u>	<u>6,650,562</u>
Balance at December 31, 2020	<u>\$ 1,144,737</u>	<u>2,085,112</u>	<u>589,428</u>	<u>114,866</u>	<u>712,397</u>	<u>4,646,540</u>
Balance at January 1, 2020	<u>\$ 958,807</u>	<u>1,739,428</u>	<u>536,125</u>	<u>48,590</u>	<u>-</u>	<u>3,282,950</u>

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

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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. The projected construction period is from March 2020 to December 2021. 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 Company financed the construction with its own funds. The construction period is from February 2021 to March 2022.

On May 27, 2021, the Company's Board of Directors resolved to purchase the land with buildings for the Company to expand operations in the future. The total amount without V.A.T of the purchase was \$607,865 thousand.

(11) Lease arrangements

A. Right-of-use assets

The Group leases assets including buildings, transportation equipment and other assets. Information about leases was as follows:

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Cost:				
Balance at January 1, 2021	\$ 38,600	2,401	6,574	47,575
Additions for the period	36,470	-	-	36,470
Deduction for the period and others	(9,043)	(1,409)	-	(10,452)
Effect of movements in exchange rate	(547)	-	-	(547)
Balance at December 31, 2021	\$ 65,480	992	6,574	73,046
Balance at January 1, 2020	\$ 42,633	1,409	-	44,042
Additions for the period	33,252	992	6,574	40,818
Deduction for the period and others	(37,015)	-	-	(37,015)
Effect of movements in exchange rate	(270)	-	-	(270)
Balance at December 31, 2020	\$ 38,600	2,401	6,574	47,575

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	Buildings	Transportation equipment	Others	Total
Depreciation:				
Balance at January 1, 2021	\$ 11,431	1,295	2,465	15,191
Depreciation for the period	18,039	587	3,287	21,913
Deduction for the period	(1,772)	(1,409)	-	(3,181)
Effect of movements in exchange rate	(153)	-	-	(153)
Balance at December 31, 2021	<u><u>\$ 27,545</u></u>	<u><u>473</u></u>	<u><u>5,752</u></u>	<u><u>33,770</u></u>
Balance at January 1, 2020	\$ 10,575	627	-	11,202
Depreciation for the period	12,709	668	2,465	15,842
Deduction for the period	(11,852)	-	-	(11,852)
Effect of movements in exchange rate	(1)	-	-	(1)
Balance at December 31, 2020	<u><u>\$ 11,431</u></u>	<u><u>1,295</u></u>	<u><u>2,465</u></u>	<u><u>15,191</u></u>
Carrying amounts:				
Balance at December 31, 2021	<u><u>\$ 37,935</u></u>	<u><u>519</u></u>	<u><u>822</u></u>	<u><u>39,276</u></u>
Balance at December 31, 2020	<u><u>\$ 27,169</u></u>	<u><u>1,106</u></u>	<u><u>4,109</u></u>	<u><u>32,384</u></u>
Balance at January 1, 2020	<u><u>\$ 32,058</u></u>	<u><u>782</u></u>	<u><u>-</u></u>	<u><u>32,840</u></u>

B. Lease liabilities

The carrying amounts of lease liabilities of the Group were as follows:

	December 31, 2021	December 31, 2020
Current	<u><u>\$ 24,027</u></u>	<u><u>16,420</u></u>
Non-current	<u><u>\$ 16,003</u></u>	<u><u>16,212</u></u>

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:

	2021	2020
Interest relating to lease liabilities	<u><u>\$ 730</u></u>	<u><u>853</u></u>
Expenses relating to short-term lease	<u><u>\$ 4,621</u></u>	<u><u>13,990</u></u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	<u><u>\$ 848</u></u>	<u><u>771</u></u>

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

	2021	2020
Total cash outflow for leases	\$ 27,591	31,120

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.

(12) Intangible assets

The cost and amortization of intangible assets of the Group were as follows:

	Computer software	Technology License Fees	Total
Cost:			
Balance at January 1, 2021	\$ 977,241	367,976	1,345,217
Additions for the period	236,905	35,719	272,624
Effects of movements in exchange rates	(16)	-	(16)
Balance at December 31, 2021	\$ 1,214,130	403,695	1,617,825
Balance at January 1, 2020	\$ 753,973	352,721	1,106,694
Additions for the period	232,255	15,255	247,510
Acquisitions through business combinations	831	-	831
Disposal of subsidiaries	(9,920)	-	(9,920)
Reclassification	95	-	95
Effects of movements in exchange rates	7	-	7
Balance at December 31, 2020	\$ 977,241	367,976	1,345,217
Amortization:			
Balance at January 1, 2021	\$ 730,411	300,912	1,031,323
Amortization for the period	227,527	44,308	271,835
Effects of movements in exchange rates	(4)	-	(4)
Balance at December 31, 2021	\$ 957,934	345,220	1,303,154
Balance at January 1, 2020	\$ 580,493	258,175	838,668
Amortization for the period	158,224	42,737	200,961
Acquisitions through business combinations	185	-	185
Disposal of subsidiaries	(8,508)	-	(8,508)
Effects of movements in exchange rates	17	-	17
Balance at December 31, 2020	\$ 730,411	300,912	1,031,323

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	Computer software	Technology License Fees	Total
Carrying amounts:			
Balance at December 31, 2021	<u>\$ 256,196</u>	<u>58,475</u>	<u>314,671</u>
Balance at December 31, 2020	<u>\$ 246,830</u>	<u>67,064</u>	<u>313,894</u>
Balance at January 1, 2020	<u>\$ 173,480</u>	<u>94,546</u>	<u>268,026</u>

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

(13) Short-term borrowings

	December 31, 2021	December 31, 2020
Unsecured bank loans	\$ 409,216	1,480,480
Secured bank loans	30,000	-
	<u>\$ 439,216</u>	<u>1,480,480</u>
Range of interest rates at year end	<u>0.50%~1.07%</u>	<u>0.57%~1.07%</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, 2021	December 31, 2020
Salaries and bonus payable	\$ 6,711,819	5,033,901
Interim dividend payable (note 6(20))	1,970,740	-
Others	1,138,587	1,011,109
	<u>\$ 9,821,146</u>	<u>6,045,010</u>

(15) Other current liabilities

	December 31, 2021	December 31, 2020
Refund liabilities	\$ 828,962	490,929
Payables for purchases of equipment	100,605	30,499
Receipts under custody	64,036	42,321
Others	55,093	41,459
	<u>\$ 1,048,696</u>	<u>605,208</u>

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(16) Long-term borrowings

		December 31, 2021	
		Rate (%)	Maturity year
		Amount	
Secured bank loans		1.50%	January, 2028
			\$ 195,636
Less: current portion			(30,947)
Total			\$ 164,689
		December 31, 2020	
		Rate (%)	Maturity year
		Amount	
Secured bank loans		1.50%	January, 2028
			\$ 226,122
Less: current portion			(30,486)
Total			\$ 195,636

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, 2021
Total convertible corporate bonds issued	\$ 3,500,000
Unamortized discounted corporate bonds payable	(87,145)
Bonds payable at December 31, 2021	\$ 3,412,855
Embedded derivative – call and conversion options, included in financial assets at fair value through profit or loss	\$ 4,900
Embedded derivative instruments –Equity component – conversion options, included in capital surplus– stock options	\$ 102,369
	2021
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	\$ 2,105
Interest expense	\$ 1,120

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The conversion price per share at the time of issuance of NT\$570 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 NT\$475 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. Starting from December 27, 2021, the conversion price was adjusted from NT\$570 to NT\$556.3. As of December 31, 2021, the conversion price has applied 1st adjustment.

Above unsecured convertible bonds included liability and equity components. 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 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, 2021	December 31, 2020
Present value of defined benefit obligations	\$ 149,156	144,989
Fair value of plan assets	(44,259)	(41,461)
Net defined benefit liabilities	\$ 104,897	103,528

(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.

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Bank of Taiwan labor pension reserve account balance of the Group' s domestic subsidiaries amounted to \$44,259 thousand as of December 31, 2021. 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

	<u>2021</u>	<u>2020</u>
Defined benefit obligation at January 1	\$ 144,989	133,343
Current service cost	2,656	2,456
Current interest cost	580	1,066
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in demographic assumptions	240	-
— Actuarial losses (gains) arising from changes in experience adjustment	11,385	22,626
— Actuarial losses (gains) arising from changes in financial assumptions	(10,694)	(13,943)
Benefits paid	-	(559)
Defined benefit obligation at December 31	<u>\$ 149,156</u>	<u>144,989</u>

(c) Movements of defined benefit plan assets

	<u>2021</u>	<u>2020</u>
Fair value of plan assets at January 1	\$ 41,461	38,398
Interest income	166	307
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	577	1,249
Contribution to the plan	2,055	2,066
Benefits paid	-	(559)
Fair value of plan assets at December 31	<u>\$ 44,259</u>	<u>41,461</u>

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(d) Expenses recognized in profit or loss

	<u>2021</u>	<u>2020</u>
Current service cost	\$ 2,656	2,456
Net interest on the net defined benefit liabilities (assets)	414	759
	<u>\$ 3,070</u>	<u>3,215</u>

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

	<u>2021</u>	<u>2020</u>
Accumulated amount at January 1	\$ (48,230)	(42,283)
Recognized during the period	(283)	(5,947)
Accumulated amount at December 31	<u>\$ (48,513)</u>	<u>(48,230)</u>

(f) Actuarial assumptions

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Discount rate	0.80%	0.40%
Future salary increase rate	3.00%	3.00%

The Group is expecting a contribution of \$2,096 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:

	<u>Impact on present value of defined benefit obligations</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2021		
Discount rate	\$ (6,121)	6,435
Future salary increase rate	5,902	(5,660)
December 31, 2020		
Discount rate	\$ (6,246)	6,577
Future salary increase rate	6,024	(5,769)

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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 2021 and 2020.

B. Defined contribution plans

The Company and the Group's domestic subsidiaries allocates 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 \$155,717 thousand and \$116,959 thousand for the years ended December 31, 2021 and 2020, 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 \$1,945 thousand and \$811 thousand for the years ended December 31, 2021 and 2020, respectively.

(19) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	<u>2021</u>	<u>2020</u>
Current tax expense		
Current period	\$ 1,682,665	922,727
Adjustment for prior periods	(219)	(263,275)
Income tax expense of unappropriated earnings	<u>169,379</u>	<u>83,053</u>
	<u>1,851,825</u>	<u>742,505</u>
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	<u>(261,426)</u>	<u>244,173</u>
Income tax expense (benefit)	<u>\$ 1,590,399</u>	<u>986,678</u>

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Reconciliations of income tax expense and profit before income tax expense were as follows:

	<u>2021</u>	<u>2020</u>
Profit before income tax	<u>\$ 9,737,614</u>	<u>9,693,429</u>
Income tax using the Company's domestic tax rate	\$ 1,947,523	1,938,686
Effect of tax rates in foreign jurisdiction	93,734	352,466
Tax-exempt income	(62,322)	(231,546)
Investment tax incentives	(566,219)	(257,045)
Effect of unrecognized deferred tax liabilities	-	(411,037)
Prior-year adjustments	(219)	(263,275)
Income tax expense of unappropriated earnings	169,379	83,053
Effect of repatriated offshore funds and others	<u>8,523</u>	<u>(224,624)</u>
Income tax expense	<u>\$ 1,590,399</u>	<u>986,678</u>

B. Income tax recognized in other comprehensive income

The amounts of income tax expense (benefit) recognized in other comprehensive income were as follows:

	<u>2021</u>	<u>2020</u>
Remeasurements from defined benefit plans	\$ (71)	(1,487)
Exchange differences on translation of foreign financial statements	<u>-</u>	<u>30,630</u>
	<u>\$ (71)</u>	<u>29,143</u>

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, 2021 and 2020. 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:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unrecognized deferred tax liabilities	<u>\$ 411,037</u>	<u>411,037</u>

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(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

	January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	Disposal of subsidiaries	December 31, 2021
Deferred tax assets							
Refund liabilities	\$ 98,186	67,606	-	-	-	-	165,792
Inventory write-downs	106,902	27,172	-	-	-	-	134,074
Unrealized exchange losses	120,325	13,334	-	-	-	-	133,659
Impairment loss on financial assets	25,258	10,847	-	-	-	-	36,105
Net defined benefit liabilities	20,706	203	71	-	-	-	20,980
Others	4,583	-	-	-	-	-	4,583
	<u>\$ 375,960</u>	<u>119,162</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>495,193</u>
Deferred tax liabilities:							
Share of gains of subsidiaries and associates accounted for using the equity method	<u>\$ 325,441</u>	<u>(142,264)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,177</u>
	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	Disposal of subsidiaries	December 31, 2020
Deferred tax assets:							
Unrealized exchange losses	\$ 107,670	12,655	-	-	-	-	120,325
Inventory write-downs	67,579	39,323	-	-	-	-	106,902
Refund liabilities	83,901	14,285	-	-	-	-	98,186
Impairment loss on financial assets	25,508	(250)	-	-	-	-	25,258
Net defined benefit liabilities	18,989	230	1,487	-	-	-	20,706
Exchange differences on translating foreign operations	30,630	-	(30,630)	-	-	-	-
Others	12,455	(7,114)	-	6	847	(1,611)	4,583
	<u>\$ 346,732</u>	<u>59,129</u>	<u>(29,143)</u>	<u>6</u>	<u>847</u>	<u>(1,611)</u>	<u>375,960</u>
Deferred tax liabilities:							
Share of gains of subsidiaries and associates accounted for using the equity method	\$ 21,930	303,511	-	-	-	-	325,441
Others	-	(209)	-	-	209	-	-
	<u>\$ 21,930</u>	<u>303,302</u>	<u>-</u>	<u>-</u>	<u>209</u>	<u>-</u>	<u>325,441</u>

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D. Examination and approval

The income tax returns of the Company and the domestic subsidiaries had been examined and assessed by the tax authority for the years through 2019.

(20) Equity

A. Common shares

As of December 31, 2021 and 2020, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The issued common shares amounted to \$1,970,740 thousand with par value of NT\$10 per share.

B. Capital surplus

The details of the Company's capital surplus were as follows:

	December 31, 2021	December 31, 2020
Additional paid-in capital	\$ 6,237,434	6,237,434
Changes in equities of associates accounted for using the equity method	268,525	-
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 non-controlling interests	1,944	1,944
Employee share options	479,179	197,810
Due to recognition of equity component of convertible bonds	102,369	-
Expired employee stock options	227	227
	<u>\$ 7,238,436</u>	<u>6,586,173</u>

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 amendments to the Company's Articles of Incorporation (the "Articles") were approved by the Company's shareholders' meeting on July 26, 2021, which stipulated that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

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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 appropriations of 2021 half-yearly earnings have been approved by the Company's Board of Directors in its meeting. The appropriations and cash dividends per share were as follows:

	First Half of 2021	Second Half of 2021
Resolution date of the Company's Board of Directors	August 6, 2021	March 4, 2022
Legal reserve	\$ 355,551	418,001
Reversal of special reserve	(9,773)	(155,568)
Cash dividends to shareholders	1,970,740	2,561,962
Cash dividends per share (NTD)	10	13

The amount of legal reserve and special reserve of 2021 will be submitted to the shareholders' meeting for approval on May 24, 2022.

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Information on the above appropriations of earnings is available at the Market Observation Post System website of the Taiwan Stock Exchange.

The appropriations of 2020 and 2019 earnings were resolved in the shareholders' meetings on July 26, 2021 and June 3, 2020, respectively, and were as follows:

	<u>2020</u>	<u>2019</u>
Legal reserve	\$ 868,226	455,816
Reversal of special reserve	(10,784)	(204,802)
Cash dividends to shareholders	4,532,702	2,561,962
Cash dividends per share (NTD)	23	13

D. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	<u>2021</u>	<u>2020</u>
Balance at January 1	\$ (37,091)	(112,499)
Foreign exchange differences (net of tax)	(106,472)	75,408
Balance at December 31	<u>\$ (143,563)</u>	<u>(37,091)</u>

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	<u>2021</u>	<u>2020</u>
Balance at January 1	\$ (128,250)	(63,626)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	386,669	(47,250)
Disposal for the period	(11,572)	(17,374)
Balance at December 31	<u>\$ 246,847</u>	<u>(128,250)</u>

(21) Share-based payment

Employee Share Option Plan

In accordance with employee share option plan approved in 2019, qualified employees of the Company and its subsidiaries were granted 8,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. In addition, with the consent of the share option holders, the Company retracted and cancelled 6,000 thousand units of issued options and replaced them with employee share option plan approved in 2020.

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Information on employee share options was as follows:

<u>Employee share options</u>	<u>2021</u>		<u>2020</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	1,976	\$ 262.00	6,000	\$ 340.00
Cancelled during the period	-	-	(6,000)	-
Granted during the period	-	-	2,000	262.00
Forfeited during the period	(36)	-	(24)	-
Outstanding at December 31	<u>1,940</u>	243.30	<u>1,976</u>	262.00
Exercisable at December 31	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (NTD)			<u>\$ 59.63</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model were as follows:

	<u>2019 2nd</u>	<u>2019 1st</u>
Grant-date share price (NTD)	\$ 262.00	340.00
Exercise price (NTD)	262.00	340.00
Expected volatility	35.27%-35.45%	31.30%-31.79%
Expected dividend yield	-	-
Expected life (year)	3	3
Risk free interest rate	0.20%-0.22%	0.52%-0.53%

The weighted-average remaining contractual life for outstanding option on December 31, 2021 and 2020, were 1.75 and 2.75 years, respectively.

In accordance with employee share option plan approved in 2020, qualified employees of the Company and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

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<u>Employee share options</u>	<u>2021</u>		<u>2020</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	5,835	\$ 262.00	-	\$ -
Granted during the period	-	-	6,000	262.00
Forfeited during the period	(53)	-	(165)	-
Outstanding at December 31	<u>5,782</u>	243.30	<u>5,835</u>	262.00
Exercisable at December 31	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (NTD)			<u>\$ 59.63</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model were as follows:

	<u>2020 1st</u>	
Grant-date share price (NTD)	\$	262.00
Exercise price (NTD)		262.00
Expected volatility		35.27%-35.45%
Expected dividend yield		-
Expected life (year)		3
Risk free interest rate		0.20%-0.22%

The weighted-average remaining contractual life for outstanding option on December 31, 2021 and 2020, were 1.75 and 2.75 years, respectively.

In accordance with employee share option plan approved in 2021, qualified employees of the Company and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options granted are valid for 4 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

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	2021	
Employee stock options	Number of Options (In Thousands of Units)	Weighted-av erage exercise price (NTD)
Outstanding at January 1	-	\$ -
Granted during the period	6,000	414.50
Forfeited during the period	(13)	-
Outstanding at December 31	5,987	404.50
Exercisable at December 31	-	
Weighted-average fair value of options granted (NTD)	\$ 112.17	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model were as follows:

	2021 1st	
Grant-date share price (NTD)	\$	414.50
Exercise price (NTD)		414.50
Expected volatility		37.44%-37.96%
Expected dividend yield		-
Expected life (year)		4
Risk free interest rate		0.40%-0.41%

The weighted-average remaining contractual life for outstanding option on December 31, 2021, was 3.89 years.

Compensation costs recognized for the years of 2021 and 2020, were \$281,369 thousand and \$197,810 thousand, respectively.

(22) Earnings per share

The calculations of basic earnings per share and diluted earnings per share of the Company were as follows:

A. Basic earnings per share

	2021	2020
Net profit attributable to ordinary shareholders of the Company	\$ 8,147,215	8,699,044
Weighted-average number of shares outstanding during the year (in thousands of shares)	197,074	197,074
Basic earnings per share (NTD)	\$ 41.34	44.14

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B. Diluted earnings per share

	2021	2020
Net profit attributable to ordinary shareholders of the Company (Basic)	\$ 8,147,215	8,699,044
Effect of dilutive potential ordinary shares		
Convertible bonds	(788)	-
Net profit attributable to ordinary shareholders of the Company (Diluted)	\$ 8,146,427	8,699,044
Weighted average number of shares outstanding during the year (in thousands of shares)	197,074	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	3,315	1,656
Employees' compensation	2,575	3,511
Effect of conversion of convertible bonds	254	-
	203,218	202,241
Diluted earnings per share (NTD)	\$ 40.09	43.01

(23) Operating revenue

Disaggregations of revenues from contracts with customers were as follows:

	2021	2020
Primary geographical markets:		
Asia	\$ 47,621,861	33,939,905
America	11,094,866	10,534,411
Europe	3,694,956	3,865,801
Australia	144,146	151,575
Others	1,363	4,830
	\$ 62,557,192	48,496,522
Major product categories:		
Flash memory module products	\$ 50,114,825	38,224,206
Controllers	10,379,076	7,371,457
Integrated Circuit	1,842,677	2,711,641
Others	220,614	189,218
	\$ 62,557,192	48,496,522

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The Group categorized the operating revenue mainly based on the countries where the customers are located.

(24) Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates of 8% to 19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2021 and 2020, which have been approved by the Company's Board of Directors on March 4, 2022 and March 11, 2021, respectively, were as follows:

Accrual rate

	<u>2021</u>	<u>2020</u>
Employees' compensation	10.24%	9.66%
Remuneration of directors and supervisors	0.47%	0.43%

Amount

	<u>2021</u>		<u>2020</u>	
	<u>Cash Dividends</u>	<u>Share Dividends</u>	<u>Cash Dividends</u>	<u>Share Dividends</u>
Employees' compensation	\$ 1,100,000	-	1,000,000	-
Remuneration of directors and supervisors	50,000	-	45,000	-

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 and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2020 and 2019.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's Board of Directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(25) Non-operating income and expenses

A. Interest income

	<u>2021</u>	<u>2020</u>
Interest income from bank deposits	\$ 37,524	36,672
Others	22	6,321
	<u>\$ 37,546</u>	<u>42,993</u>

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B. Other income

	<u>2021</u>	<u>2020</u>
Dividend income	\$ 95,052	82,471
Rent income	20,700	13,942
Others	40,308	334,227
	<u>\$ 156,060</u>	<u>430,640</u>

C. Other gains and losses

	<u>2021</u>	<u>2020</u>
Gains (Losses) on disposal of subsidiaries or associates accounted for using the equity method (notes 6(7) and 6(9))	\$ (272)	5,202,580
Net foreign exchange gains (losses)	(76,326)	(318,756)
Gains (Losses) on financial assets (liabilities) at fair value through profit or loss	266,703	(23,814)
Others	(2,274)	(3,711)
	<u>\$ 187,831</u>	<u>4,856,299</u>

D. Finance costs

	<u>2021</u>	<u>2020</u>
Interest on bank loans	\$ 17,156	4,181
Interest on lease liabilities	730	853
Interest on convertible bond	1,120	-
Others	-	98
	<u>\$ 19,006</u>	<u>5,132</u>

(26) Financial instruments

A. Categories of financial instruments

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,658,523	5,931,956
Financial assets at amortized cost (Note 1)	28,962,814	21,578,601
Financial assets at FVTOCI	634,757	360,304
	<u>\$ 31,256,094</u>	<u>27,870,861</u>

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	December 31, 2021	December 31, 2020
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	\$ 22,909,645	11,212,515

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) and other receivables.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payable (including related parties), other payables, current portion of long-term borrowings, bonds payable, long-term borrowings, 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. As a result, the market risk is immaterial.

(i) Exposure to foreign currency risk

The Group's financial assets and liabilities exposed to significant foreign currency risk were as follows:

	December 31, 2021			December 31, 2020		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	482,969	27.68	13,368,578	312,127	28.48	8,889,370

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	December 31, 2021			December 31, 2020		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Non-Monetary items</u>						
CNY	815,300	4.34	3,538,402	805,583	4.38	3,528,455
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	283,113	27.68	7,836,557	136,680	28.48	3,892,659

(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 6% of the NTD against the USD as of December 31, 2021 and 2020, would have increased or decreased the net profit before income tax by \$331,921 thousand and \$299,803 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

For the years of 2021 and 2020, the foreign exchange losses (including realized and unrealized) were \$76,326 thousand and \$318,756 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

(b) Interest rate risk

(i) Exposure to interest rate risk

The Group was exposed to interest rate risk because of holding bank deposits at floating interest rates. The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31, 2021	December 31, 2020
Fair value interest rate risk		
– Financial assets	\$ 5,788,925	4,764,683
– Financial liabilities	479,246	1,485,112
Cash flow interest rate risk		
– Financial assets	13,744,062	10,490,173
– Financial liabilities	195,636	254,122

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(ii) Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's net profit before income tax for the years of 2021 and 2020 would have increased by \$1,355 thousand and \$1,024 thousand, respectively.

(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 1% higher or lower, net profit before income tax for the years of 2021 and 2020 would have increased or decreased by \$16,585 thousand and \$59,320 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 1% higher or lower, the other comprehensive income before income tax for the years of 2021 and 2020 would have increased or decreased by \$6,348 thousand and \$3,603 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, 2021, and 2020, 40% and 32%, respectively, of accounts receivable 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.

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(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 segregated foreign exchange deposit account for Offshore Funds and 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.

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 Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity.

(a) Loan Facilities

	December 31, 2021	December 31, 2020
Unsecured bank facilities		
Amount used	\$ 1,569,216	2,640,480
Amount unused	8,871,944	7,167,920
	<u>\$ 10,441,160</u>	<u>9,808,400</u>
Secured bank facilities		
Amount used	\$ 225,636	226,122
Amount unused	120,000	-
	<u>\$ 345,636</u>	<u>226,122</u>

(b) Analysis of the contractual maturities of financial liabilities

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

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	<u>Carrying amount</u>	<u>Cash flow of contract</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
December 31, 2021					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 18,857,829	(18,857,829)	(18,857,829)	-	-
Lease liabilities	40,030	(40,214)	(24,402)	(15,812)	-
Bonds payable	3,412,855	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	195,636	(204,820)	(33,669)	(134,676)	(36,475)
Fixed interest rate liabilities	439,216	(439,799)	(439,799)	-	-
	<u>\$ 22,945,566</u>	<u>(23,042,662)</u>	<u>(19,355,699)</u>	<u>(3,650,488)</u>	<u>(36,475)</u>
December 31, 2020					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 9,500,927	(9,500,927)	(9,500,927)	-	-
Lease liabilities	32,632	(33,533)	(16,887)	(16,646)	-
Floating interest rate liabilities	254,122	(266,588)	(61,768)	(134,676)	(70,144)
Fixed interest rate liabilities	1,452,480	(1,453,711)	(1,453,711)	-	-
	<u>\$ 11,240,161</u>	<u>(11,254,759)</u>	<u>(11,033,293)</u>	<u>(151,322)</u>	<u>(70,144)</u>

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, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 728,076	-	-	728,076
Domestic unlisted stocks	-	-	302,867	302,867
Foreign unlisted stocks	-	-	108,793	108,793
Domestic private equity funds	-	-	39,909	39,909
Beneficiary certificates — open-end funds	473,978	-	-	473,978
Derivative instruments — convertible bonds	-	-	4,900	4,900
	<u>\$ 1,202,054</u>	<u>-</u>	<u>456,469</u>	<u>1,658,523</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	294,433	294,433
Foreign unlisted stocks	-	-	340,324	340,324
	<u>\$ -</u>	<u>-</u>	<u>634,757</u>	<u>634,757</u>
	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 505,377	-	-	505,377
Domestic unlisted stocks	-	-	314,214	314,214
Foreign unlisted stocks	-	-	80,989	80,989
Domestic private equity funds	-	-	42,033	42,033
Beneficiary certificates — open-end funds	4,989,343	-	-	4,989,343
	<u>\$ 5,494,720</u>	<u>-</u>	<u>437,236</u>	<u>5,931,956</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	139,069	139,069
Foreign unlisted stocks	-	-	221,235	221,235
	<u>\$ -</u>	<u>-</u>	<u>360,304</u>	<u>360,304</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2021 and 2020.

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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	Total
	Private equity funds	Derivative instruments-convertible bonds		Equity instruments	
		Equity instruments	Equity instruments		
January 1, 2021	\$ 42,033	-	395,203	360,304	797,540
Recognized in profit or loss	(2,124)	2,105	58,069	-	58,050
Recognized in other comprehensive income	-	-	-	99,481	99,481
Additions for the period	-	2,795	3,338	174,972	181,105
Disposal and proceeds from capital reduction	-	-	(44,950)	-	(44,950)
December 31, 2021	\$ 39,909	4,900	411,660	634,757	1,091,226
January 1, 2020	\$ 45,408	94,770	413,898	636,432	1,190,508
Recognized in profit or loss	(3,375)	(2,391)	(6,633)	-	(12,399)
Recognized in other comprehensive income	-	-	-	(107,664)	(107,664)
Additions for the period	-	-	7,078	3,825	10,903
Disposal and proceeds from capital reduction	-	(92,379)	(19,140)	(176,789)	(288,308)
Acquisition through business combinations	-	-	-	4,500	4,500
December 31, 2020	\$ 42,033	-	395,203	360,304	797,540

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

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

	December 31, 2021	December 31, 2020
Discount for lack of marketability	15% ~ 28.97%	15%

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

	December 31, 2021	December 31, 2020
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	2.5%	1.28%~2.40%
WACC	7.02%~9.59%	11.19%~16.66%

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

	December 31, 2021	December 31, 2020
Discount for non-controlling interest	10%	10%
Discount for lack of marketability	10%	10%

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, 2021, was 43.39%.

(d) Fair value of financial instruments that are not measured at fair value

Except for the convertible bonds payable, the Group considers the carrying amounts of financial assets and liabilities not measured at fair value recognized in the consolidated financial statements to be approximate to their fair values or their fair values cannot be reliably measured. The fair values of convertible bonds payable are determined by the evaluation report provided by third party pricing services.

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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 at December 31, 2021 and 2020, were respectively as follows:

	December 31, 2021	December 31, 2020
Total liabilities	\$ 25,712,923	12,408,485
Total equity	37,308,434	35,155,467
Debt-to-adjusted-capital ratio	69%	35%

The release of convertible bonds resulted in the debt-to-equity ratio to increase as of December 31, 2021.

(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, 2021	Cash flows	Foreign exchange movement and others	December 31, 2021
Short-term borrowings	\$ 1,480,480	(1,044,498)	3,234	439,216
Bonds payable	-	3,511,309	(98,454)	3,412,855
Long-term borrowings	226,122	(30,486)	-	195,636
Lease liabilities (current and non-current)	32,632	(21,392)	28,790	40,030
Guarantee deposits received	4,986	(877)	-	4,109
Total liabilities from financing activities	\$ 1,744,220	2,414,056	(66,430)	4,091,846

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	January 1, 2020	Cash flows	Foreign exchange movement and others	December 31, 2020
Short-term borrowings	\$ -	1,457,493	22,987	1,480,480
Long-term borrowings	-	(106,700)	332,822 (Note)	226,122
Lease liabilities (current and non-current)	33,222	(15,506)	14,916	32,632
Guarantee deposits received	134	(254)	5,106	4,986
Total liabilities from financing activities	\$ 33,356	1,335,033	375,831	1,744,220

Note: The amount is from acquisitions from business combinations.

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
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Hosin Global Electronics Co., Ltd. (HK)	Associate
Hefei Datang Storage Technology Co., Ltd.	Associate
SiliTai Electronics Co., Limited	Associate
Hosin Global Electronics Co., Ltd. (SZ)	Associate
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Associate
Hefei Core Storage Electronic Limited	Associate (Note 1)
Kioxia Corporation	Other related party
Kioxia America, Inc.	Other related party
Kioxia Taiwan Corporation	Other related party
Kioxia Asia, Limited	Other related party
Toshiba International Procurement HongKong, Ltd.	Other related party
Solid State Storage Technology Corporation Hsinchu Science Park Branch	Other related party
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party

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<u>Name of related party</u>	<u>Relationship with the Group</u>
Super Storage Technology Corporation	Other related party (Note 2)
Kingston Solutions Inc.	Associate (Note 3)
LIU, TIAN-PAI	Other related party

Note 1: Since November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and became an associate of the Group.

Note 2: Since July 1, 2020, Super Storage Technology Corporation became a subsidiary of the Group.

Note 3: Since September 4, 2020, Kingston Solutions Inc. was no longer a related party of the Group.

(2) Significant transactions with related parties

A. Operating revenues

The amounts of significant sales by the Group to related parties were as follows:

<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Associates	\$ 7,183,771	1,381,547
Other related parties	2,961,939	1,997,894
	<u>\$ 10,145,710</u>	<u>3,379,441</u>

The credit terms to non-related parties and related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price of the Group for related parties and that of the third parties.

B. Purchase of goods and Processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Associates	\$ 182,447	318,062
Other related party - Kioxia Taiwan Corporation	14,676,478	9,876,557
Other related parties	247	718,385
	<u>\$ 14,859,172</u>	<u>10,913,004</u>

(b) Processing costs

<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Associates	\$ -	42
Other related parties	2,433,741	1,943,977
	<u>\$ 2,433,741</u>	<u>1,944,019</u>

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The payment terms to related parties were ranged from EOM 7 days to Net 75 days and that to non-related parties were ranged from T/T in advance to Net 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. Payables to related parties

<u>Related Party Category / Name</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Associate – Hosin Global Electronics Co., Ltd. (HK)	\$ 1,614,392	116,308
Associates	553,795	231,560
Other related parties	652,856	321,413
	<u>2,821,043</u>	<u>669,281</u>
Less: Loss allowance	(7,519)	-
	<u>\$ 2,813,524</u>	<u>669,281</u>

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

<u>Related Party Category / Name</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Associates	\$ -	17,918
Other related party- Kioxia Taiwan Corporation	2,764,162	1,063,257
Other related parties	436,145	208,547
	<u>\$ 3,200,307</u>	<u>1,289,722</u>

E. Other transactions

<u>Account Name</u>	<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Operating Costs	Other related parties	<u>\$ 1,334</u>	<u>8,704</u>
Operating Expenses	Associates	\$ 277,377	49,942
	Other related parties	11,955	6,805
		<u>\$ 289,332</u>	<u>56,747</u>
Non-operating incomes	Associates	\$ 1,405	2,547
	Other related parties	21,781	3,181
		<u>\$ 23,186</u>	<u>5,728</u>

As of December 31, 2021 and 2020, the receivables arising from above transactions were \$26,512 thousand and \$1,153 thousand, respectively (recognized as other receivables), and the payables arising from above transactions were \$54,392 thousand and \$40,587 thousand, respectively (recognized as other payables).

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The related parties distributed \$91,614 thousand and \$63,064 thousand cash dividends to the Group for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the aforementioned dividends had been received.

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:

	<u>2021</u>	<u>2020</u>
Short-term employee benefits	\$ 567,236	516,893
Post-employment benefits	1,988	3,116
Share-based payments	86,679	78,476
	<u>\$ 655,903</u>	<u>598,485</u>

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:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Property, plant and equipment	As collateral for loans and finance facilities	\$ 530,694	543,482
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	40,459	40,409
		<u>\$ 571,153</u>	<u>583,891</u>

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unused letters of credit	<u>\$ 1,160,000</u>	<u>1,160,000</u>

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B. The unpaid amounts of construction, plant and equipment that have been signed or ordered were as follows:

	December 31, 2021	December 31, 2020
	\$ 373,455	1,612,315

(2) Purchase commitment

The Company entered into a long-term purchase agreement of material with a supplier and paid partial guarantee deposit as agreed. The relative purchase quantity and price of wafers are specified in the agreement.

10. Losses due to major disasters: None

11. Subsequent events

- (1) The Company's Board of Directors resolved on December 17, 2021, to acquire 6,120 shares (51% of ownership interests) of Nextorage Corporation from Sony Storage Media Solutions Corporation in cash amounting to JP\$578,217 thousand. The transaction has been completed and Nextorage has become a subsidiary of the Company since January 1, 2022.
- (2) The Company's Board of Directors resolved on January 21, 2022, 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 composite leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount is \$346,660 thousand.

12. Other

- (1) A summary of current-period employee benefits, depreciation, and amortization, by function, was as follows:

		For the year ended December 31					
		2021			2020		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
By item	By function						
	Employee benefits						
	Salary	567,201	7,198,463	7,765,664	357,452	5,907,703	6,265,155
	Labor and health insurance	56,630	268,969	325,599	34,816	194,039	228,855
	Pension	23,525	137,207	160,732	15,950	105,035	120,985
	Others	40,724	129,650	170,374	37,578	299,951	337,529
	Depreciation	143,423	327,219	470,642	96,095	281,652	377,747
	Amortization	563	271,272	271,835	70	200,891	200,961

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- (2) When considering the impact of the COVID-19 pandemic, the Group assessed that the pandemic had no significant influence on its finance and operations, and there were no doubts about its ability to continue as a going concern in relation to the recognition of an impairment loss and the risk of financing.
- (3) 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 actions:
- A. To ask to remove Mr. K.S. Pua from the Company' s Board Director Position ("Removal Action");
- B. To claim monetary damage amounting to \$697,389 thousand against the Company, Mr. K.S. Pua, and other co-defendants ("Claim 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 Hsinchu District Court rendered judgment on February 18, 2022, to dismiss the Removal Action, and the current status is to see whether SFIPC will file petition for appeal or not. 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 on 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 on 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 Group:

- A. Loans to other parties: None
- B. Guarantees and endorsements for other parties: None
- C. Securities held as of December 31, 2021 (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: Please refer to Table 2.
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 3.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

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- G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 4.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 5.
- I. Trading in derivative instruments: Please refer to Notes 6(2).
- J. Business relationships and significant intercompany transactions: Please refer to Table 6.
- (2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 7.
- (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 8.
 - B. Limitation on investment in Mainland China: Please refer to Table 8.
 - C. Significant transactions:

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	10.05%

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.

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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) for the product information for the years ended December 31, 2021 and 2020.

(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) for the information on revenue from external customers for the years of 2021 and 2020.

B. Non-current assets:

Geography	December 31, 2021	December 31, 2020
Asia	\$ 6,962,656	4,966,295
America	41,853	26,523
	\$ 7,004,509	4,992,818

(4) Major customer

There was no single customer that accounted for 10% or over of the Group's revenue for the years of 2021 and 2020.

Phison Electronics Corp. and Subsidiaries
Securities held as of December 31, 2021 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2021

(Shares in Thousands /Amounts in Thousands)

Table 1

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/Units	Carrying Value	Percentage of Ownership		
The Company	<u>Beneficiary certificates — open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss — current	16,326	206,978	-	206,978	-
	FSITC Taiwan Money Market Fund	-	Same as above	10,134	156,782	-	156,782	-
	<u>Common shares</u>				363,760			
	Apacer Technology Inc.	-	Same as above	10,050	488,932	9.87%	488,932	9.87%
	Orient Semiconductor Electronics, Ltd. Acer Synergy Tech Corp.	-	Same as above Same as above	7,336	194,414	0.89%	194,414	0.89%
			900	44,730	6.91%	44,730	6.91%	
				<u>728,076</u>				

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/Units	Carrying Value	Percentage of Ownership	Fair Value		
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	5,355	229,089	11.11%	229,089	11.11%	
	Taishan Buffalo Investment Co., Ltd.	-	Same as above	46,300	42,583	1.08%	42,583	1.08%	
	Innorich Venture Capital Corp.	-	Same as above	3,000	17,124	5.61%	17,124	5.61%	
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	15,873	0.67%	15,873	0.67%	
	AppWorks Fund I Co., Ltd.	-	Same as above	728	14,071	18.75%	14,071	18.75%	
					318,740				
The Company	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at fair value through other comprehensive income-non-current	11,966	216,047	17.16%	216,047	17.16%	
	AppWorks Fund III Co., Ltd.	-	Same as above	10,000	105,005	2.92%	105,005	2.92%	
	UD INFO Corp.	-	Same as above	1,252	72,290	17.40%	72,290	17.40%	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	28,572	19.00%	28,572	19.00%	
	Gomore Inc.	-	Same as above	16,925	8,649	3.39%	8,649	3.39%	
	H3 Platform, Inc.	-	Same as above	18,400	4,755	12.14%	4,755	12.14%	
	Gospal Ltd.	-	Same as above	811,857	3,626	3.19%	3,626	3.19%	
	Aptos Technology Inc.	-	Same as above	529	-	0.60%	-	0.60%	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.54%	-	12.54%	
	GeoThings, Inc.	-	Same as above	150	-	5.36%	-	5.36%	
	Ironyun Incorporated	-	Same as above	5,000	-	5.64%	-	5.64%	
					438,944				

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/Units	Carrying Value	Percentage of Ownership	Fair Value		
Lian Xu Dong Investment Corporation	<u>Private equity funds</u>								
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss — non-current	6,000	39,909	3.81%	39,909	3.81%	
	<u>Common shares</u>								
	Translink Capital Partners III L.P.	-	Financial assets at fair value through profit or loss — non-current	1,500	50,475	1.18%	50,475	1.18%	
Lian Xu Dong Investment Corporation	Translink Capital Partners IV L.P.	-	Same as above	790	42,445	0.59%	42,445	0.59%	
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income — non-current	2,111	107,247	4.79%	107,247	4.79%	
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	25,000	25,000	3.19%	25,000	3.19%	
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	25,000	25,000	11.90%	25,000	11.90%	
Lian Xu Dong Investment Corporation	New Future III Limited Partnership	-	Same as above	19,967	19,967	6.37%	19,967	6.37%	
	Omni Media International Incorporation	-	Same as above	1,714	6,655	2.60%	6,655	2.60%	
	UMBO CV INC. (preference shares)	-	Same as above	1,626	-	2.34%	-	2.34%	
					183,869				

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/Units	Carrying Value	Percentage of Ownership	Fair Value		
Emitops Electronics Corporation	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 — non-current	167	30,075	-	30,075	-	
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,039	-	20,039	-	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,038	-	20,038	-	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,035	-	20,035	-	
Super Storage Technology Corporation	Capital Money Market Fund	-	Same as above	1,229	20,031	-	20,031	-	
	<u>Common shares</u>				110,218				
	Power Research Technology Corp.	-	Financial assets at fair value through other comprehensive income — non-current	833	11,944	13.88%	11,944	13.88%	

Phison Electronics Corp. and Subsidiaries
Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock
For the year ended December 31, 2021

Table 2 (Shares in Thousands /Amounts in Thousands)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance (Note 1)	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Core Storage Electronic (Samoa) Limited and RealYou Investment Limited	Hosin Global Electronics Co., Ltd. (SZ)	Investments accounted for using the equity method	Juridical Person	Associates	104,500	1,973,587	54,095 (Note 2)	1,388,832 (Note 2)	-	-	-	-	158,595	3,402,515

Note 1: The amounts of the beginning and ending balances include the valuation gains or losses on investments accounted for using the equity method.

Note 2: Please refer to consolidated financial statements note 6(7) for related transaction.

Phison Electronics Corp. and Subsidiaries
Acquisition of Individual Real Estate Properties at Costs of at least NT\$300 Million or 20% of the paid-in capital
For the year ended December 31, 2021

(Amounts in Thousands)

Table 3

Company Name	Types of Property	Transaction Date	Transaction Amount	Status of Payment	Counter-Party	Nature of Relationships	Prior Transaction of Related Counter-Party			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship with the Company	Date of Transfer			
The Company	Land	May 27, 2021 (Note)	607,865	Full payment	TYNTEK CORPORATION	None	-	-	-	Appraisal report, market value announced, and actual price registration of transactions in the neighborhood	For operational use	None

Note: The purchase of the land was approved by the Board of Directors, and was recognized under property, plant and equipment after the inspection in November 2021.

Phison Electronics Corp. and Subsidiaries

**Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock
For the year ended December 31, 2021**

(Amounts in Thousands)

Table 4

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 the Company's director	Purchase	14,676,478	33%	Net 30 days after monthly closing	None	(2,764,162)	(30)%		
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-sidiary's associate	Purchase	161,201	-	Net 7 days after receipt date and Net 75 days after monthly closing	None	-	-		
	Orient Semiconductor Electronics, Ltd.	The Company is its director	Processing cost	2,433,741	6%	Net 30 days after monthly closing	None	(436,145)	(5)%		
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	433,389	1%	Net 30 days after monthly closing	None	(94,765)	(1)%	Note 2	
	Kioxia Corporation	The Company's director	Sales	(1,247,331)	(2)%	Net 60 days after monthly closing	None	303,871	3%		
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The subsidiary of the Company's director	Sales	(433,889)	(1)%	Net 60 days after monthly closing and Net 90 days after receipt date	None	116,120	1%		
	Apacer Technology Inc.	The Company is its director	Sales	(1,146,901)	(2)%	Net 45 days after monthly closing	None	202,185	2%		

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable)	Note
	Hefei Core Storage Electronic Limited	The subsidiary of the sub-subsidiary's associate	Sales	(910,400)	(1)%	Net 30 days after receipt date and Net 45 days after monthly closing	None	None	279,963	3%	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	Sales	(605,934)	(1)%	Net 60 days after receipt date	None	None	131,654	2%	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsidiary's associate	Sales	(4,695,138)	(8)%	Net 30 days after receipt date and Net 45 days after monthly closing	None	None	1,611,002	18%	
The Company	ProGrade Digital Inc.	Investee accounted for using the equity method	Sales	(442,435)	(1)%	Net 30 days after receipt date	None	None	81,224	1%	
	Nextorage Corporation	Investee accounted for using the equity method	Sales	(490,030)	(1)%	Net 60 days after monthly closing	None	None	58,162	1%	

Note 1: The sales and purchase prices to related parties were similar to those offered to unrelated 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, 2021

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period (Note)	Allowance for Bad Debts
					Amount	Action Taken		
The Company	Apacer Technology Inc.	The Company is its director	202,185	5.10	-	-	202,185	425
	Kioxia Corporation	The Company's director	303,871	7.21	-	-	303,871	639
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The subsidiary of the Company's director	116,120	6.28	-	-	61,157	244
	Hefei Core Storage Electronic Limited	The subsidiary of the sub-subsubsidiary's associate	279,963	5.77	-	-	279,963	589
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsubsidiary's associate	1,611,002	5.44	-	-	1,253,033	3,390
	Hefei Datang Storage Technology Co., Ltd.	Investee accounted for using the equity method	131,654	5.19	48,193	Collection in subsequent period	116,014	1,876

Note: Information as of March 1, 2022.

Phison Electronics Corp. and Subsidiaries
Business relationships and significant intercompany transactions
For the year ended December 31, 2021

(In Thousands of New Taiwan Dollars)

Table 6

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	Super Storage Technology Corporation	1	Processing cost	433,389	General trading terms	1.00%
			1	Accounts payable	94,765	General trading terms	-
			1	Right-of-use assets	23,209	General trading terms	-
			1	Lease liabilities	23,423	General trading terms	-
		Phison Technology Inc.	1	Marketing expenses	301,114	General trading terms	-
		Phison Electronics Japan Corp.	1	Marketing expenses	18,007	General trading terms	-
		Ostek Corporation	1	Manufacturing costs	35,100	General trading terms	-

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, 2021

Table 7

(Shares in Thousands /Amount in Thousands)

The following is the information on investees for the years ended December 31, 2020 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021		Highest Percentage of Ownership during the year	Net Income (Losses) of Investee	Share of Profits/ Losses of Investee	Note
				December 31, 2021	December 31, 2020	Shares	Percentage of Ownership				
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00%	100.00%	76,048	76,048	Subsidiary and note 3
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00%	100.00%	63,742	63,742	Subsidiary and note 3
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	581,363	55,000,000	100.00%	100.00%	51,881	52,000	Subsidiary and note 3
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00%	100.00%	45,665	45,665	Subsidiary and note 3
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	133,988	6,288,523	30.51%	37.82%	(8,212)	(3,205)	Investee accounted for using the equity method
	Emitops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00%	100.00%	4,730	4,730	Subsidiary and note 3
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	105,440	4,800,000	100.00%	100.00%	(661)	(661)	Subsidiary and note 3
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00%	100.00%	2,904	2,904	Subsidiary and note 3
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	30.27%	32.01%	100,196	31,905	Investee accounted for using the equity method

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021		Highest Percentage of Ownership during the year	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2021	December 31, 2020	Shares	Percentage of Ownership				
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	81,232	81,232	5,880	49.00%	49.00%	46,479	22,776	Investee accounted for using the equity method
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000.0	100.00%	100.00%	980	980	Subsidiary and note 3
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00%	49.00%	623	305	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%	100.00%	595	Note 1	Sub-subsidiary and note 3
Emtops Electronics Corporation	Phison Technology Inc.	USA	Sales and service office	90,419	90,419	3,000,000	100.00%	100.00%	5,628	Note 1	Sub-subsidiary
Phison Tech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00%	100.00%	53,782	Note 1	Sub-subsidiary and note 3
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00%	100.00%	59,096	Note 1	Sub-subsidiary and note 3
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%	100.00%	53	Note 1	Sub-subsidiary and note 3
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Manufacture and sale of flash memory related products	-	191,986	-	-	100.00%	(435)	Note 1	Note 2 and note 3
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00%	100.00%	63,824	Note 1	Sub-subsidiary and note 3

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: Memoryexchange Corporation ended operations since March 2021 and was in the process of liquidation.

Note 3: The aforementioned inter-company transactions 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, 2021

Table 8

(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 Taiwan as of January 1, 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2021	Net Income (Losses) of the Investee	Percentage of Ownership	Highest percentage of ownership during the year	Investment Income (Losses) (Note 2)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2021	Note
					Outflow	Inflow								
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic product and technical support service and rendering of related services	-	2(2)	630,990	-	-	630,990	-	-	24.41%	(5,182)	-	-	Note 3
Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services	182,825	2(1)	182,825	-	-	182,825	(23,107)	100.00%	100.00%	(23,107)	145,593	-	Note 5
Hefei Ximpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services	735,136	2(1)	-	-	-	-	(95,225)	24.23%	24.23%	(23,075)	135,887	-	



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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, 2021, the parent company only statements of comprehensive income, changes in equity and cash flows for the year 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, 2021, 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 Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the parent company only Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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(20) “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. Whether the Company recognizes revenue depending on the trade term in each individual sale contract to ensure the performance obligation has been satisfied by transferring control over a product to a customer is considered to be complex. 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 testing internal controls over sales and collection cycle; understanding the Company's main revenue types, its related sales agreements, and trade terms; on a sample basis, inspecting related sales contracts or sales order and other trade documents to assess whether the timing of revenue recognition was depending on the trade term agreed with customers; performing a sample test 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 Company'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(6) "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.

Other Matter

Predecessor auditor issued the audit opinion with other matters paragraph

The parent company only financial statements of the Company as of and for the year ended December 31, 2020 were audited by another auditor, who have issued an unmodified opinion with emphasis of matter paragraph on March 11, 2021.

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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

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

1. Identify and assess the risks of material misstatement of the 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.

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)
Phison Electronics Corp.

Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020		December 31, 2021		December 31, 2020		
	Amount	%	Amount	%	Amount	%	Amount	%	
Assets									
Current assets:									
1100 Cash and cash equivalents (note 6(1))	\$ 17,675,707	28	12,003,683	25	2100 Short-term borrowings (note 6(11))	\$ 379,216	1	1,452,480	3
1110 Financial assets at fair value through profit or loss—current (note 6(2))	1,096,736	2	5,201,526	11	2130 Contract liabilities—current	203,044	-	35,553	-
1136 Financial assets at amortized cost—current (notes 6(3) and 8)	568,694	1	293,860	1	2170 Accounts payable	5,832,288	9	2,163,954	5
1170 Accounts receivable, net (note 6(5))	5,914,769	9	5,346,886	11	2180 Accounts payable—related parties (note 7)	3,299,584	5	1,337,642	3
1180 Accounts receivable—related parties, net (notes 6(5) and 7)	2,813,524	4	669,288	1	2200 Other payables (note 6(12))	9,698,997	15	5,963,775	13
1200 Other receivables (notes 6(5) and 7)	543,778	1	275,957	1	2230 Tax payable	1,196,588	2	83,727	-
130X Inventories (note 6(6))	19,491,118	31	10,136,867	22	2280 Lease liabilities—current (note 6(9))	26,271	-	15,054	-
1410 Prepayments	18,213	-	42,921	-	2399 Other current liabilities (notes 6(13) and 7)	1,079,909	2	627,577	1
1479 Other current assets	1,822	-	32,773	-		21,715,897	34	11,679,762	25
	48,124,361	76	34,003,761	72					
Non-current assets:					Non-Current liabilities:				
1510 Financial assets at fair value through profit or loss—non-current (note 6(2))	358,649	1	374,597	1	Bonds payable (note 6(14))	3,412,855	6	-	-
1517 Financial assets at fair value through other comprehensive income—non-current (note 6(4))	438,944	1	199,247	-	Deferred tax liabilities (note 6(16))	183,178	-	325,441	1
1550 Investments accounted for using the equity method (note 6(7))	6,502,466	10	7,997,569	17	Lease liabilities—non-current (note 6(9))	31,678	-	18,440	-
1600 Property, plant and equipment (note 6(8))	5,885,272	9	3,954,832	8	Net defined benefit liabilities (note 6(15))	104,897	-	103,528	-
1755 Right-of-use assets (note 6(9))	57,174	-	33,221	-	Guarantee deposits received	628	-	487	-
1780 Intangible assets (note 6(10))	311,911	1	310,269	1	Total liabilities	3,733,236	6	447,896	1
1840 Deferred tax assets (note 6(16))	495,176	1	375,927	1	Equity (note 6(17)):	25,449,133	40	12,127,658	26
1900 Other non-current assets (note 9(2))	583,614	1	33,702	-	Common shares	1,970,740	3	1,970,740	4
	14,633,206	24	13,279,364	28	Capital surplus	7,238,436	12	6,586,173	14
					Retained earnings	27,995,974	45	26,763,895	56
					Other equity interest	103,284	-	(165,341)	-
					Total equity	37,308,434	60	35,155,467	74
Total assets	\$ 62,757,567	100	47,283,125	100	Total liabilities and equity	\$ 62,757,567	100	47,283,125	100

(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, 2021 and 2020

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

		<u>2021</u>		<u>2020</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue (notes 6(20) and 7)	\$ 62,552,823	100	48,350,427	100
5000	Operating costs (notes 6(6), (8), (15), (21) and 7)	43,504,064	70	36,191,425	75
	Gross profit from operations	19,048,759	30	12,159,002	25
5910	Unrealized profit on transactions with associates	(54,596)	-	(4,069)	-
	Realized gross profit	18,994,163	30	12,154,933	25
	Operating expenses (notes 6(8), (15), (21) and 7):				
6100	Marketing expenses	1,045,844	2	879,042	2
6200	General and administrative expenses	779,391	1	719,547	1
6300	Research and development expenses	8,128,771	13	6,763,563	14
6450	Expected credit loss (gain) (note 6(5))	6,600	-	(56,269)	-
	Total operating expenses	9,960,606	16	8,305,883	17
	Net operating income	9,033,557	14	3,849,050	8
	Non-operating income and expenses:				
7010	Other income (notes 6(22) and 7)	93,092	-	119,952	-
7020	Other gains and losses (note 6(22))	152,293	-	614,931	1
7050	Finance costs (note 6(22))	(15,359)	-	(3,156)	-
7100	Interest income (note 6(22))	27,869	-	31,699	-
7060	Shares of profit of subsidiaries and associates accounted for using the equity method (note 6(7))	297,189	1	4,691,780	10
		555,084	1	5,455,206	11
7900	Profit before tax	9,588,641	15	9,304,256	19
7950	Income tax expenses (note 6(16))	1,441,426	2	605,212	1
8200	Net profit for the year	8,147,215	13	8,699,044	18
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(354)	-	(7,434)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(23))	134,692	-	(15,345)	-
8330	Shares of other comprehensive income of subsidiaries and associates accounted for using the equity method	251,977	-	(31,905)	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(16))	71	-	1,487	-
	Total items that will not be reclassified subsequently to profit or loss	386,386	-	(53,197)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(106,472)	-	106,038	-
8399	Income tax related to items that may be reclassified subsequently (note 6(16))	-	-	(30,630)	-
	Total items that may be reclassified subsequently to profit or loss	(106,472)	-	75,408	-
8300	Other comprehensive income	279,914	-	22,211	-
8500	Total comprehensive income	<u>\$ 8,427,129</u>	<u>13</u>	<u>8,721,255</u>	<u>18</u>
	Earnings per share (New Taiwan Dollars) (note 6(19)):				
9750	Basic earnings per share	<u>\$ 41.34</u>		<u>44.14</u>	
9850	Diluted earnings per share	<u>\$ 40.09</u>		<u>43.01</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 Changes in Equity
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings				Unappropriated retained earnings			Exchange differences on translation of foreign financial statements			Total other equity interest	
	Common shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total	Total	Total	Total equity	
Balance at January 1, 2020	\$ 1,970,740	6,724,104	3,850,715	380,927	16,411,959	20,643,601	(112,499)	(176,125)	(63,626)	(176,125)	29,162,320	
Net profit for the year	-	-	-	-	8,699,044	8,699,044	-	-	-	-	8,699,044	
Other comprehensive income (loss) for the year	-	-	-	-	(5,947)	(5,947)	-	28,158	(47,250)	28,158	22,211	
Total comprehensive income (loss) for the year	-	-	-	-	8,693,097	8,693,097	75,408	28,158	(47,250)	28,158	8,721,255	
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	455,816	-	(455,816)	-	-	-	-	-	-	
Cash dividends of ordinary share	-	-	-	-	(2,561,962)	(2,561,962)	-	-	-	-	(2,561,962)	
Reversal of special reserve	-	-	-	(204,802)	204,802	-	-	-	-	-	-	
Changes in equity of associates accounted for using the equity method	-	(335,315)	-	-	(28,215)	(28,215)	-	-	-	-	(363,530)	
Changes in ownership interests in subsidiaries	-	(426)	-	-	-	-	-	-	-	-	(426)	
Share-based payments	-	197,810	-	-	-	-	-	-	-	-	197,810	
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	17,374	17,374	-	(17,374)	-	(17,374)	-	
Balance at December 31, 2020	1,970,740	6,586,173	4,306,531	176,125	22,281,239	26,763,895	(37,091)	(165,341)	(128,250)	(165,341)	35,155,467	
Net profit for the year	-	-	-	-	8,147,215	8,147,215	-	-	-	-	8,147,215	
Other comprehensive income (loss) for the year	-	-	-	-	(283)	(283)	(106,472)	280,197	386,669	280,197	279,914	
Total comprehensive income (loss) for the year	-	-	-	-	8,146,932	8,146,932	(106,472)	280,197	386,669	280,197	8,427,129	
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	1,223,777	-	(1,223,777)	-	-	-	-	-	-	
Cash dividends of ordinary share	-	-	-	-	(6,503,442)	(6,503,442)	-	-	-	-	(6,503,442)	
Reversal of special reserve	-	-	-	(20,557)	20,557	-	-	-	-	-	-	
Changes in equity of associates accounted for using the equity method	-	268,525	-	-	(422,983)	(422,983)	-	-	-	-	(154,458)	
Share-based payments	-	281,369	-	-	-	-	-	-	-	-	281,369	
Due to recognition of equity component of convertible bonds	-	102,369	-	-	-	-	-	-	-	-	102,369	
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	11,572	11,572	-	(11,572)	-	(11,572)	-	
Balance at December 31, 2021	\$ 1,970,740	7,238,436	5,530,308	155,568	22,310,098	27,995,974	(143,563)	103,284	246,847	103,284	37,308,434	

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, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	2021	2020
Cash flows from operating activities:		
Profit before income tax	\$ 9,588,641	9,304,256
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	396,316	340,969
Amortization expense	270,812	200,124
Expected credit loss (reversal gain)	6,600	(56,269)
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	(239,154)	27,217
Financial costs	15,359	3,156
Interest income	(27,869)	(31,699)
Dividend income	(61,691)	(82,471)
Share-based payments	278,593	195,970
Shares of profit of subsidiaries and associates accounted for using the equity method	(297,189)	(4,691,780)
Loss on disposal of property, plant and equipment	-	2,218
Gain on disposal of investments accounted for using the equity method	-	(961,153)
Unrealized profit on transactions with associates	54,596	4,069
Unrealized foreign exchange loss (gain)	(63,048)	102,380
Write-down of inventories	135,858	196,619
Recognition of refund liabilities	555,242	261,975
Gains on modification of lease	(6)	(468)
Total adjustments to reconcile profit (loss)	1,024,419	(4,489,143)
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	(2,748,924)	(89,098)
Other receivables	(264,803)	133,214
Inventories	(9,490,109)	1,110,247
Prepayments	24,708	220,899
Other current assets	30,951	(30,306)
Contract liabilities	167,491	(95,062)
Accounts payable (including related parties)	5,655,017	(133,668)
Other payable	1,788,741	1,936,510
Other current liabilities	(108,676)	(183,825)
Net defined benefit liability	1,015	1,149
Total changes in operating assets and liabilities	(4,944,589)	2,870,060
Cash inflow generated from operations	5,668,471	7,685,173
Interest paid	(14,350)	(2,657)
Income taxes paid	(590,006)	(875,411)
Net cash flows from operating activities	5,064,115	6,807,105

(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, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	2021	2020
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(105,005)	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	246
Acquisition of financial assets at amortized cost	(3,652,682)	(293,860)
Proceeds from disposal of financial assets at amortized cost	3,407,878	20,383
Acquisition of financial assets at fair value through profit or loss	-	(2,150,000)
Proceeds from disposal of financial assets at fair value through profit or loss	4,337,537	92,379
Proceeds from capital reduction of financial assets at fair value through profit and loss	21,450	19,140
Acquisition of investments accounted for using the equity method	(44,750)	(967,452)
Net cash inflow on disposal of associates	-	1,776,295
Proceeds from capital reduction of investments accounted for using the equity method	54,457	495,011
Acquisition of property, plant and equipment	(2,286,464)	(1,000,105)
Increase in refundable deposits	(515,401)	(6,039)
Acquisition of intangible assets	(272,454)	(243,054)
Increase in prepayments for equipment	(53,197)	(23,461)
Interest received	28,427	31,525
Dividends received	1,783,503	396,908
Net cash flows from (used in) investing activities	2,703,299	(1,852,084)
Cash flows from financing activities:		
Increase in short-term loans	7,732,390	4,032,516
Decrease in short-term loans	(8,808,888)	(2,573,023)
Proceeds from issuing bonds (excluding issuance costs)	3,511,309	-
Increase in guarantee deposits received	141	94
Payment of lease liabilities	(21,098)	(16,720)
Cash dividends paid	(4,532,702)	(2,561,962)
Net cash flows used in financing activities	(2,118,848)	(1,119,095)
Effect of exchange rate changes on cash and cash equivalents	23,458	(108,797)
Net increase in cash and cash equivalents	5,672,024	3,727,129
Cash and cash equivalents at beginning of period	12,003,683	8,276,554
Cash and cash equivalents at end of period	\$ 17,675,707	12,003,683

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, 2021 and 2020

(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 address of its registered office and principal place of business is 10F-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County. 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 4, 2022.

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, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

The Company has initially adopted the (following) new amendments, which do not have a significant impact on its parent company only financial statements, from April 1, 2021:

- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

- (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, 2022, would not have a significant impact on its parent company only financial statements:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

Phison Electronics Corp.
Notes to the Parent Company Only 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 IAS 1 “Classification of Liabilities as Current or Non-current”
- 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”

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 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 significant accounting policies

The significant 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.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

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 rates of exchange prevailing at the dates of the transactions.

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

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

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.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

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 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.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

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.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

(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) 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.

(d) 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.

(e) 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.

(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.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

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.

(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.

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Notes to 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) Land improvements: 7 years
- (b) Building—building cost: 20 to 50 years
- (c) Building—electrical engineering: 20 years
- (d) Testing equipment: 3 years
- (e) Office equipment: 3 years
- (f) Mechanical equipment: 3 years
- (g) 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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Notes to the Parent Company Only Financial Statements

(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 rereasurement) 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.

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.

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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.

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.

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(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.

(20) Operating segments

The Company has disclosed its operating segment information in the consolidated financial statements; hence, it need not to be disclosed in the parent company only financial statements.

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(6) for further description of the valuation of inventories.

6. Description of significant accounts

(1) Cash and cash equivalent

	December 31, 2021	December 31, 2020
Cash, demand deposits and check deposits	\$ 12,818,145	7,745,362
Cash equivalents — time deposits	4,857,562	4,258,321
	\$ 17,675,707	12,003,683

Please refer to note 6(23) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

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

	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss — current :		
Beneficiary certificates — open-end funds	\$ 363,760	4,696,149
Domestic listed stock	728,076	505,377
Derivative instruments — convertible bonds (note 6(14))	4,900	-
	\$ 1,096,736	5,201,526
	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss — non-current :		
Domestic private equity funds	\$ 39,909	42,033
Domestic unlisted stocks	302,867	314,214
Foreign unlisted stocks	15,873	18,350
	\$ 358,649	374,597

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost — current

	December 31, 2021	December 31, 2020
Segregated foreign exchange deposit account for Offshore Funds	\$ 528,235	253,451
Pledged time deposits	40,459	40,409
	\$ 568,694	293,860

- A. The Company obtained approvals from the Ministry of Finance in August 2020, January 2021 and March 2021, respectively, to repatriate offshore funds in accordance with “The Management, Utilization, and Taxation of Repatriated Offshore Funds Act” (the Act). The repatriated amount, net of tax, was deposited into segregated foreign exchange deposit account (segregated account). The deposit in segregated account is subject to restrictions based on the Act.
- B. 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.
- C. The financial assets mentioned above were pledged as collateral. Please refer to note 8.

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

	December 31, 2021	December 31, 2020
Domestic unlisted stocks	\$ 205,867	113,156
Foreign unlisted stocks	233,077	86,091
	<u>\$ 438,944</u>	<u>199,247</u>

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 were pledge as collateral.

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

	December 31, 2021	December 31, 2020
Accounts receivable	\$ 5,954,959	5,387,995
Accounts receivable – related parties	2,821,043	669,288
	8,776,002	6,057,283
Less: loss allowance	(47,709)	(41,109)
Accounts receivable, net	<u>\$ 8,728,293</u>	<u>6,016,174</u>
	December 31, 2021	December 31, 2020
Tax refunds receivable	\$ 470,060	257,435
Factored accounts receivable	42,292	15,790
Other receivables – related parties (note 7)	26,512	1,153
Others	4,914	1,579
Less: loss allowance	-	-
Other receivables	<u>\$ 543,778</u>	<u>275,957</u>

As of January 1, 2020, the ending balance of accounts receivable, net (including related parties) was \$5,898,698 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.

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Notes to the Parent Company Only Financial Statements

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.

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, 2021		
	Gross carrying amount	Weighted-average loss rate	Loss allowance
Current	\$ 8,372,068	0.21%	17,670
1~60 days past due	384,532	4.47%	17,192
61~90 days past due	1,145	36.59%	419
91~120 days past due	10,521	45.26%	4,762
121~150 days past due	518	86.48%	448
More than 151 days past due	7,218	100.00%	7,218
	\$ 8,776,002		47,709

	December 31, 2020		
	Gross carrying amount	Weighted-average loss rate	Loss allowance
Current	\$ 5,738,537	0.32%	18,516
1~60 days past due	311,591	5.59%	17,414
61~90 days past due	7,128	72.33%	5,156
91~120 days past due	27	85.19%	23
	\$ 6,057,283		41,109

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

	2021	2020
Balance, beginning of the period	\$ 41,109	97,378
Impairment losses recognized (reversed)	6,600	(56,269)
Balance, end of the period	\$ 47,709	41,109

None of the above accounts receivable 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.

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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:

(Unit: USD in Thousands)

December 31, 2021				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ 1,748	1,528	0.55%~0.65%	Note 1~4

December 31, 2020				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ 690	554	0.55%~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, 2021 and 2020, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$42,292 thousand and \$15,790 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.

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(6) Inventories

	December 31, 2021	December 31, 2020
Raw materials	\$ 11,809,699	5,298,146
Work in process	4,642,900	3,521,681
Semi-finished goods	2,902,052	1,267,154
Finished goods	136,467	49,886
	\$ 19,491,118	10,136,867

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2021 and 2020 were \$43,504,064 thousand and \$36,191,425 thousand, respectively.

The costs of goods sold for the years ended December 31, 2021 and 2020 included inventory write-downs of \$135,858 thousand and \$196,619 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(7) Investments accounted for using the equity method

Summarizations of the Company investments accounted for using the equity method at the reporting date were as follows:

	December 31, 2021	December 31, 2020
Subsidiaries	\$ 5,885,825	7,518,150
Associates	616,641	479,419
	\$ 6,502,466	7,997,569

A. Subsidiaries:

Due to operational strategy, the Company increased its investment in Power Flash (Samoa) Limited, Phisontech Electronics Taiwan Corp. and Regis Investment (Samoa) Limited' s common shares with a total of \$44,750 thousand and \$802,781 thousand in 2021 and 2020.

Due to the change in the percentage of ownership interest in the investees in 2020, the Company recognized capital surplus of \$31,732 thousand.

The Company' s subsidiary subscribed 54,500 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of 24.59% ownership (the amount of contribution was CN\$54,500 thousand) in Hefei Core Storage Electronic Limited in November 2020. In addition, the Company subscribed 54,095 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of residual 24.41% ownership (the amount of contribution was CN\$54,095 thousand) in Hefei Core Storage Electronic Limited in February 2021.

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Besides the abovementioned stock transfer, the Company's subsidiary did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2021, therefore, the changes in equity of associate recognized in the years of 2021 and 2020 by the Company amounted to \$(145,046) thousand and \$(93,593) thousand, respectively. In 2021, the retained earnings of \$416,037 thousand was reversed and the capital surplus of \$270,991 thousand was recognized. In 2020, the retained earnings of \$28,215 thousand was reversed and the capital surplus previously generated from long-term investment of \$65,378 thousand was reversed.

As of December 31, 2021, the Company's percentage of ownership interest in HOSIN Global Electronics Co., Ltd. (SZ) was 42.63%.

Please refer to consolidated financial statements for the years ended December 31, 2021 and 2020 for subsidiaries information.

B. Associates

	December 31, 2021	December 31, 2020
EpoStar Electronics (BVI) Corporation	\$ 421,077	269,809
ProGrade Digital Inc.	98,019	88,400
Nextorage Corporation	74,263	98,233
Microtops Design Corporation	23,282	22,977
	<u>\$ 616,641</u>	<u>479,419</u>

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

	2021	2020
Attributable to the Company:		
Net profit	\$ 51,782	403,485
Other comprehensive income	287,188	59,289
Total comprehensive income	<u>\$ 338,970</u>	<u>462,774</u>

Disposing of its ownership interests in Kingston Solutions Inc. to Kingston Technology Corporation, a non-related party, with \$1,781,640 thousand in September 2020, the Company reversed capital surplus of \$263,344 thousand and recognized a gain on the disposal of investment of \$967,348 thousand.

Due to operational strategy, the Company increased its investment in ProGrade Digital, Inc. and Nextorage Corporation's common shares with a total of \$164,671 thousand for the year of 2020.

In 2021, due to a capital reduction of EpoStar Electronics (BVI) Corporation amounting to \$54,457 thousand and the change of percentage of ownership interests in ProGrade Digital, Inc., the changes in equity of associate recognized amounted to \$(9,412) thousand, including reversals of capital surplus of \$2,466 thousand and retained earnings of \$6,946 thousand.

Phison Electronics Corp.
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Due to the change in the percentage of ownership interest in EpoStar Electronics (BVI) Corporation and ProGrade Digital, Inc. in 2020, the Company reversed capital surplus of \$38,325 thousand.

C. Pledged

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

(8) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company were as follows:

	Land	Buildings	Mechanical and testing equipment	Office and other equipment	Construction in progress	Total
Cost:						
Balance at January 1, 2021	\$ 958,807	2,105,353	983,815	137,390	712,397	4,897,762
Additions for the period	618,083	19,844	358,799	50,878	1,238,860	2,286,464
Disposal for the period	-	-	(151,416)	(16,386)	-	(167,802)
Reclassification	-	3,034	10,496	5,156	-	18,686
Balance at December 31, 2021	\$ 1,576,890	2,128,231	1,201,694	177,038	1,951,257	7,035,110
Balance at January 1, 2020	\$ 958,807	2,091,905	863,445	100,013	-	4,014,170
Additions for the period	-	13,448	224,085	50,175	712,397	1,000,105
Disposal for the period	-	-	(121,110)	(12,798)	-	(133,908)
Reclassification	-	-	17,395	-	-	17,395
Balance at December 31, 2020	\$ 958,807	2,105,353	983,815	137,390	712,397	4,897,762
Depreciation:						
Balance at January 1, 2021	\$ -	416,663	458,732	67,535	-	942,930
Depreciation for the period	-	65,408	274,181	35,121	-	374,710
Disposal for the period	-	-	(151,416)	(16,386)	-	(167,802)
Balance at December 31, 2021	\$ -	482,071	581,497	86,270	-	1,149,838
Balance at January 1, 2020	\$ -	352,476	344,026	54,228	-	750,730
Depreciation for the period	-	64,187	235,733	23,970	-	323,890
Disposal for the period	-	-	(121,027)	(10,663)	-	(131,690)
Balance at December 31, 2020	\$ -	416,663	458,732	67,535	-	942,930
Carrying amounts:						
Balance at December 31, 2021	\$ 1,576,890	1,646,160	620,197	90,768	1,951,257	5,885,272
Balance at December 31, 2020	\$ 958,807	1,688,690	525,083	69,855	712,397	3,954,832
Balance at January 1, 2020	\$ 958,807	1,739,429	519,419	45,785	-	3,263,440

None of the property, plant and equipment mentioned above were pledged as collateral.

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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. The projected construction period is from March 2020 to December 2021. 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 Company financed the construction with its own funds. The construction period is from February 2021 to March 2022.

On May 27, 2021, the Company's Board of Directors resolved to purchase the land with buildings for the Company to expand operations in the future. The total amount without V.A.T of the purchase was \$607,865 thousand.

(9) Lease arrangements

A. Right-of-use assets

The Company leases assets including buildings, transportation equipment and other assets. Information about leases was as follows:

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Cost:				
Balance at January 1, 2021	\$ 40,674	2,401	6,574	49,649
Additions for the period	45,900	-	-	45,900
Deduction for the period and others	(2,113)	(1,409)	-	(3,522)
Balance at December 31, 2021	<u>\$ 84,461</u>	<u>992</u>	<u>6,574</u>	<u>92,027</u>
Balance at January 1, 2020	\$ 42,632	1,408	-	44,040
Additions for the period	23,324	993	6,574	30,891
Deduction for the period and others	(25,282)	-	-	(25,282)
Balance at December 31, 2020	<u>\$ 40,674</u>	<u>2,401</u>	<u>6,574</u>	<u>49,649</u>
Depreciation:				
Balance at January 1, 2021	\$ 12,669	1,294	2,465	16,428
Depreciation for the period	17,732	587	3,287	21,606
Deduction for the period	(1,772)	(1,409)	-	(3,181)
Balance at December 31, 2021	<u>\$ 28,629</u>	<u>472</u>	<u>5,752</u>	<u>34,853</u>
Balance at January 1, 2020	\$ 10,574	626	-	11,200
Depreciation for the period	13,946	668	2,465	17,079
Deduction for the period	(11,851)	-	-	(11,851)
Balance at December 31, 2020	<u>\$ 12,669</u>	<u>1,294</u>	<u>2,465</u>	<u>16,428</u>

Phison Electronics Corp.
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	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Carrying amounts:				
Balance at December 31, 2021	<u>\$ 55,832</u>	<u>520</u>	<u>822</u>	<u>57,174</u>
Balance at December 31, 2020	<u>\$ 28,005</u>	<u>1,107</u>	<u>4,109</u>	<u>33,221</u>
Balance at January 1, 2020	<u>\$ 32,058</u>	<u>782</u>	<u>-</u>	<u>32,840</u>

B. Lease liabilities

The carrying amounts of lease liabilities of the Company were as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current	<u>\$ 26,271</u>	<u>15,054</u>
Non-current	<u>\$ 31,678</u>	<u>18,440</u>

For the maturity analysis, please refer to note 6(23) "Financial instruments" .

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

	<u>2021</u>	<u>2020</u>
Interest relating to lease liabilities	<u>\$ 803</u>	<u>1,048</u>
Expenses relating to short-term lease	<u>\$ 3,665</u>	<u>987</u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	<u>\$ 848</u>	<u>771</u>

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

	<u>2021</u>	<u>2020</u>
Total cash outflow for leases	<u>\$ 26,414</u>	<u>19,526</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.

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(10) Intangible assets

The cost and amortization of intangible assets of the Company were as follows:

	<u>Computer software</u>	<u>Technology License Fees</u>	<u>Total</u>
Cost:			
Balance at January 1, 2021	\$ 973,187	367,976	1,341,163
Additions for the period	236,735	35,719	272,454
Balance at December 31, 2021	<u>\$ 1,209,922</u>	<u>403,695</u>	<u>1,613,617</u>
Balance at January 1, 2020	\$ 745,388	352,721	1,098,109
Additions for the period	227,799	15,255	243,054
Balance at December 31, 2020	<u>\$ 973,187</u>	<u>367,976</u>	<u>1,341,163</u>
Amortization:			
Balance at January 1, 2021	\$ 729,982	300,912	1,030,894
Amortization for the period	226,504	44,308	270,812
Balance at December 31, 2021	<u>\$ 956,486</u>	<u>345,220</u>	<u>1,301,706</u>
Balance at January 1, 2020	\$ 572,595	258,175	830,770
Amortization for the period	157,387	42,737	200,124
Balance at December 31, 2020	<u>\$ 729,982</u>	<u>300,912</u>	<u>1,030,894</u>
Carrying amounts:			
Balance at December 31, 2021	<u>\$ 253,436</u>	<u>58,475</u>	<u>311,911</u>
Balance at December 31, 2020	<u>\$ 243,205</u>	<u>67,064</u>	<u>310,269</u>
Balance at January 1, 2020	<u>\$ 172,793</u>	<u>94,546</u>	<u>267,339</u>

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

(11) Short-term borrowings

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unsecured bank loans	<u>\$ 379,216</u>	<u>1,452,480</u>
Range of interest rates at year end	<u>0.50%~0.51%</u>	<u>0.57%~0.66%</u>

(12) Other payables

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Salaries and bonus payable	\$ 6,639,544	4,980,747
Interim dividend payable (note 6(17))	1,970,740	-
Others	1,088,713	983,028
	<u>\$ 9,698,997</u>	<u>5,963,775</u>

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(13) Other current liabilities

	December 31, 2021	December 31, 2020
Refund liabilities	\$ 828,962	490,929
Payables for purchases of equipment	96,208	27,817
Receipts under custody	61,664	40,181
Others	93,075	68,650
	\$ 1,079,909	627,577

(14) 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, 2021
Total convertible corporate bonds issued	\$ 3,500,000
Unamortized discounted corporate bonds payable	(87,145)
Bonds payable at December 31, 2021	\$ 3,412,855
Embedded derivative – call and conversion options, included in financial assets at fair value through profit or loss	\$ 4,900
Embedded derivative instruments –Equity component – conversion options, included in capital surplus– stock options	\$ 102,369
	2021
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	\$ 2,105
Interest expense	\$ 1,120

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The conversion price per share at the time of issuance of NT\$570 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 NT\$475 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. Starting from December 27, 2021, the conversion price was adjusted from NT\$570 to NT\$556.3. As of December 31, 2021, the conversion price has applied 1st adjustment. Above unsecured convertible bonds included liability and equity components. Equity component is included in capital surplus—stock options. The effective interest rate originally recognized for the liability component was 1.005%.

(15) 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, 2021	December 31, 2020
Present value of defined benefit obligations	\$ 149,156	144,989
Fair value of plan assets	(44,259)	(41,461)
Net defined benefit liabilities	<u>\$ 104,897</u>	<u>103,528</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 \$44,259 thousand as of December 31, 2021. 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

	<u>2021</u>	<u>2020</u>
Defined benefit obligation at January 1	\$ 144,989	133,343
Current service cost	2,656	2,456
Current interest cost	580	1,066
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in demographic assumptions	240	-
— Actuarial losses (gains) arising from changes in experience adjustment	11,385	22,626
— Actuarial losses (gains) arising from changes in financial assumptions	(10,694)	(13,943)
Benefits paid	-	(559)
Defined benefit obligation at December 31	<u>\$ 149,156</u>	<u>144,989</u>

(c) Movements of defined benefit plan assets

	<u>2021</u>	<u>2020</u>
Fair value of plan assets at January 1	\$ 41,461	38,398
Interest income	166	307
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	577	1,249
Contribution to the plan	2,055	2,066
Benefits paid	-	(559)
Fair value of plan assets at December 31	<u>\$ 44,259</u>	<u>41,461</u>

(d) Expenses recognized in profit or loss

	<u>2021</u>	<u>2020</u>
Current service cost	\$ 2,656	2,456
Net interest on the net defined benefit liabilities (assets)	414	759
	<u>\$ 3,070</u>	<u>3,215</u>

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

	<u>2021</u>	<u>2020</u>
Accumulated amount at January 1	\$ (48,230)	(42,283)
Recognized during the period	(283)	(5,947)
Accumulated amount at December 31	<u>\$ (48,513)</u>	<u>(48,230)</u>

- (f) Actuarial assumptions

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Discount rate	0.80%	0.40%
Future salary increase rate	3.00%	3.00%

The Company is expecting a contribution of \$2,096 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:

	<u>Impact on present value of defined benefit obligations</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2021		
Discount rate	\$ (6,121)	6,435
Future salary increase rate	5,902	(5,660)
December 31, 2020		
Discount rate	\$ (6,246)	6,577
Future salary increase rate	6,024	(5,769)

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 2021 and 2020.

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B. Defined contribution plans

The Company allocates 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 \$146,042 thousand and \$111,966 thousand for 2021 and 2020, respectively. Payment was made to the Bureau of Labor Insurance.

(16) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	<u>2021</u>	<u>2020</u>
Current tax expense		
Current period	\$ 1,536,851	540,127
Adjustment for prior periods	-	(261,108)
Income tax expense of unappropriated earnings	<u>166,016</u>	<u>82,357</u>
	<u>1,702,867</u>	<u>361,376</u>
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	<u>(261,441)</u>	<u>243,836</u>
Income tax expense (benefit)	<u><u>\$ 1,441,426</u></u>	<u><u>605,212</u></u>

Reconciliations of income tax expense and profit before income tax expense were as follows:

	<u>2021</u>	<u>2020</u>
Profit before income tax	<u><u>\$ 9,588,641</u></u>	<u><u>9,304,256</u></u>
Income tax using the Company's domestic tax rate	\$ 1,917,728	1,860,851
Tax exempt income	(83,000)	(231,555)
Investment tax incentives	(566,219)	(257,045)
Effect of unrecognized deferred tax liabilities	-	(411,037)
Prior-year adjustments	-	(261,108)
Income tax expense of unappropriated earnings	166,016	82,357
Effect of repatriated offshore funds and others	<u>6,901</u>	<u>(177,251)</u>
Income tax expense	<u><u>\$ 1,441,426</u></u>	<u><u>605,212</u></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:

	<u>2021</u>	<u>2020</u>
Remeasurements from defined benefit plans	\$ (71)	(1,487)
Exchange differences on translation of foreign financial statements	-	30,630
	<u>\$ (71)</u>	<u>29,143</u>

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, 2021 and 2020. 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:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unrecognized deferred tax liabilities	<u>\$ 411,037</u>	<u>411,037</u>

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

	<u>January 1, 2021</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31, 2021</u>
Deferred tax assets				
Refund liabilities	\$ 98,186	67,606	-	165,792
Inventory write-downs	106,902	27,172	-	134,074
Unrealized exchange losses	120,325	13,334	-	133,659
Impairment loss on financial assets	25,258	-	-	25,258
Net defined benefit liabilities	20,706	203	71	20,980
Others	4,550	10,863	-	15,413
	<u>\$ 375,927</u>	<u>119,178</u>	<u>71</u>	<u>495,176</u>

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	January 1, 2021	Recognized in income statement	Recognized in other comprehensive income	December 31, 2021
Deferred tax liabilities:				
Share of gains of subsidiaries and associates accounted for using the equity method	\$ 325,441	(142,263)	-	183,178

	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2020
Deferred tax assets:				
Unrealized exchange losses	\$ 107,512	12,813	-	120,325
Inventory write-downs	67,579	39,323	-	106,902
Refund liabilities	83,901	14,285	-	98,186
Impairment loss on financial assets	25,508	(250)	-	25,258
Net defined benefit liabilities	18,989	230	1,487	20,706
Exchange differences on translating foreign operations	30,630	-	(30,630)	-
Others	11,276	(6,726)	-	4,550
	<u>\$ 345,395</u>	<u>59,675</u>	<u>(29,143)</u>	<u>375,927</u>

	January 1, 2020	Recognized in income statement	Recognized in other comprehensive income	December 31, 2020
Deferred tax liabilities:				
Share of gains of subsidiaries and associates accounted for using the equity method	\$ 21,930	303,511	-	325,441

D. Examination and approval

The income tax returns of the Company had been examined and assessed by the tax authority for the years through 2019.

(17) Equity

A. Common shares

As of December 31, 2021 and 2020, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The issued common shares amounted to \$1,970,740 thousand with par value of NT\$10 per share.

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B. Capital surplus

The details of the Company's capital surplus were as follows:

	December 31, 2021	December 31, 2020
Additional paid-in capital	\$ 6,237,434	6,237,434
Changes in equities of associates accounted for using the equity method	268,525	-
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 non-controlling interests	1,944	1,944
Employee share options	479,179	197,810
Due to recognition of equity component of convertible bonds	102,369	-
Expired employee stock options	227	227
	<u>\$ 7,238,436</u>	<u>6,586,173</u>

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 amendments to the Company' s Articles of Incorporation (the "Articles") were approved by the Company' s shareholders' meeting on July 26, 2021, which stipulated 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.

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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 appropriations of 2021 half-yearly earnings have been approved by the Company's Board of Directors in its meeting. The appropriations and cash dividends per share were as follows:

	First Half of 2021	Second Half of 2021
Resolution date of the Company's Board of Directors	August 6, 2021	March 4, 2022
Legal reserve	\$ 355,551	418,001
Reversal of special reserve	(9,773)	(155,568)
Cash dividends to shareholders	1,970,740	2,561,962
Cash dividends per share (NTD)	10	13

The amount of legal reserve and special reserve of 2021 will be submitted to the shareholders' meeting for approval on May 24, 2022.

Information on the above appropriations of earnings is available at the Market Observation Post System website of the Taiwan Stock Exchange.

The appropriations of 2020 and 2019 earnings were resolved in the shareholders' meetings on July 26, 2021 and June 3, 2020, respectively, and were as follows:

	2020	2019
Legal reserve	\$ 868,226	455,816
Reversal of special reserve	(10,784)	(204,802)
Cash dividends to shareholders	4,532,702	2,561,962
Cash dividends per share (NTD)	23	13

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D. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	<u>2021</u>	<u>2020</u>
Balance at January 1	\$ (37,091)	(112,499)
Foreign exchange differences (net of tax)	<u>(106,472)</u>	<u>75,408</u>
Balance at December 31	<u><u>\$ (143,563)</u></u>	<u><u>(37,091)</u></u>

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	<u>2021</u>	<u>2020</u>
Balance at January 1	\$ (128,250)	(63,626)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	386,669	(47,250)
Disposal for the period	<u>(11,572)</u>	<u>(17,374)</u>
Balance at December 31	<u><u>\$ 246,847</u></u>	<u><u>(128,250)</u></u>

(18) Share-based payment

Employee Share Option Plan

In accordance with employee share option plan approved in 2019, qualified employees of the Company and its subsidiaries were granted 8,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. In addition, with the consent of the share option holders, the Company retracted and cancelled 6,000 thousand units of issued options and replaced them with employee share option plan approved in 2020.

Information on employee share options was as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted-aver age exercise price (NTD)</u>	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted-aver age exercise price (NTD)</u>
<u>Employee share options</u>				
Outstanding at January 1	1,976	\$ 262.00	6,000	\$ 340.00
Cancelled during the period	-	-	(6,000)	-
Granted during the period	-	-	2,000	262.00
Forfeited during the period	<u>(36)</u>	-	<u>(24)</u>	-
Outstanding at December 31	<u><u>1,940</u></u>	243.30	<u><u>1,976</u></u>	262.00
Exercisable at December 31	<u><u>-</u></u>		<u><u>-</u></u>	
Weighted-average fair value of options granted (NTD)			<u><u>\$ 59.63</u></u>	

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Options were priced by using the Black-Scholes pricing model, and the inputs to the model were as follows:

	<u>2019 2nd</u>	<u>2019 1st</u>
Grant-date share price (NTD)	\$ 262.00	340.00
Exercise price (NTD)	262.00	340.00
Expected volatility	35.27%-35.45%	31.30%-31.79%
Expected dividend yield	-	-
Expected life (year)	3	3
Risk free interest rate	0.20%-0.22%	0.52%-0.53%

The weighted-average remaining contractual life for outstanding option on December 31, 2021 and 2020, were 1.75 and 2.75 years, respectively.

In accordance with employee share option plan approved in 2020, qualified employees of the Company and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

<u>Employee share options</u>	<u>2021</u>		<u>2020</u>	
	Number of Options (In Thousands of Units)	Weighted-aver age exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-aver age exercise price (NTD)
Outstanding at January 1	5,835	\$ 262.00	-	\$ -
Granted during the period	-	-	6,000	262.00
Forfeited during the period	<u>(53)</u>	-	<u>(165)</u>	-
Outstanding at December 31	<u>5,782</u>	243.30	<u>5,835</u>	262.00
Exercisable at December 31	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (NTD)			<u>\$ 59.63</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model were as follows:

	<u>2020 1st</u>	
Grant-date share price (NTD)	\$	262.00
Exercise price (NTD)		262.00
Expected volatility	35.27%-35.45%	
Expected dividend yield	-	
Expected life (year)	3	
Risk free interest rate	0.20%-0.22%	

Phison Electronics Corp.
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The weighted-average remaining contractual life for outstanding option on December 31, 2021 and 2020, were 1.75 and 2.75 years, respectively.

In accordance with employee share option plan approved in 2021, qualified employees of the Company and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options granted are valid for 4 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	2021	
Employee stock options	Number of Options (In Thousands of Units)	Weighted-av erage exercise price (NTD)
Outstanding at January 1	-	\$ -
Granted during the period	6,000	414.50
Forfeited during the period	(13)	-
Outstanding at December 31	5,987	404.50
Exercisable at December 31	-	-
Weighted-average fair value of options granted (NTD)	\$ 112.17	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model were as follows:

	2021 1st	
Grant-date share price (NTD)	\$	414.50
Exercise price (NTD)		414.50
Expected volatility	37.44%-37.96%	
Expected dividend yield	-	
Expected life (year)	4	
Risk free interest rate	0.40%-0.41%	

The weighted-average remaining contractual life for outstanding option on December 31, 2021, was 3.89 years.

Compensation costs recognized by the Company for the years of 2021 and 2020, were \$278,593 thousand and \$195,970 thousand, respectively. Furthermore, compensation costs recognized by the Company's subsidiaries for the years of 2021 and 2020, were \$2,776 thousand and \$1,840 thousand, respectively.

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(19) Earnings per share

The calculations of basic earnings per share and diluted earnings per share of the Company were as follows:

A. Basic earnings per share

	<u>2021</u>	<u>2020</u>
Net profit attributable to ordinary shareholders of the Company	<u>\$ 8,147,215</u>	<u>8,699,044</u>
Weighted-average number of shares outstanding during the year (in thousands of shares)	<u>197,074</u>	<u>197,074</u>
Basic earnings per share (NTD)	<u>\$ 41.34</u>	<u>44.14</u>

B. Diluted earnings per share

	<u>2021</u>	<u>2020</u>
Net profit attributable to ordinary shareholders of the Company (Basic)	\$ 8,147,215	8,699,044
Effect of dilutive potential ordinary shares		
Convertible bonds	(788)	-
Net profit attributable to ordinary shareholders of the Company (Diluted)	<u>\$ 8,146,427</u>	<u>8,699,044</u>
Weighted average number of shares outstanding during the year (in thousands of shares)	197,074	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	3,315	1,656
Employees' compensation	2,575	3,511
Effect of conversion of convertible bonds	254	-
	<u>203,218</u>	<u>202,241</u>
Diluted earnings per share (NTD)	<u>\$ 40.09</u>	<u>43.01</u>

(20) Operating revenue

Disaggregations of revenues from contracts with customers were as follows:

	<u>2021</u>	<u>2020</u>
Primary geographical markets		
Asia	\$ 47,617,492	33,793,810
America	11,094,866	10,534,411
Europe	3,694,956	3,865,801
Australia	144,146	151,575
Others	1,363	4,830
	<u>\$ 62,552,823</u>	<u>48,350,427</u>

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	<u>2021</u>	<u>2020</u>
Major product categories		
Flash memory module products	\$ 50,114,399	37,861,373
Controllers	9,347,429	7,391,298
Integrated Circuit	1,520,615	2,030,917
Others	1,570,380	1,066,839
	<u>\$ 62,552,823</u>	<u>48,350,427</u>

The Company categorized the operating revenue mainly based on the countries where the customers are located.

(21) Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%~19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2021 and 2020, which have been approved by the Company's Board of Directors on March 4, 2022 and March 11, 2021, respectively, were as follows:

Accrual rate

	<u>2021</u>	<u>2020</u>
Employees' compensation	10.24%	9.66%
Remuneration of directors and supervisors	0.47%	0.43%

Amount

	<u>2021</u>		<u>2020</u>	
	<u>Cash Dividends</u>	<u>Share Dividends</u>	<u>Cash Dividends</u>	<u>Share Dividends</u>
Employees' compensation	\$ 1,100,000	-	1,000,000	-
Remuneration of directors and supervisors	50,000	-	45,000	-

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 and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2020 and 2019.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's Board of Directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

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(22) Non-operating income and expenses

A. Interest income

	<u>2021</u>	<u>2020</u>
Interest income from bank deposits	\$ 27,851	25,447
Others	18	6,252
	<u>\$ 27,869</u>	<u>31,699</u>

B. Other income

	<u>2021</u>	<u>2020</u>
Rental income	\$ 2,766	2,727
Dividend income	61,691	82,471
Others	28,635	34,754
	<u>\$ 93,092</u>	<u>119,952</u>

C. Other gains and losses

	<u>2021</u>	<u>2020</u>
Gains (Losses) on financial assets (liabilities) at fair value through profit or loss	\$ 239,154	(27,217)
Gain (Losses) on disposal of investments accounted for using the equity method (note 6(7))	-	961,153
Net foreign exchange losses	(84,587)	(315,238)
Others	(2,274)	(3,767)
	<u>\$ 152,293</u>	<u>614,931</u>

D. Finance costs

	<u>2021</u>	<u>2020</u>
Interest on bank loans	\$ 13,436	2,010
Interest on lease liabilities	803	1,048
Interest on convertible bond	1,120	-
Others	-	98
	<u>\$ 15,359</u>	<u>3,156</u>

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(23) Financial instruments

A. Categories of financial instruments

	December 31, 2021	December 31, 2020
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,455,385	5,576,123
Financial assets at amortized cost (Note 1)	27,516,472	18,589,674
Financial assets at FVTOCI	438,944	199,247
	\$ 29,410,801	24,365,044
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	\$ 22,623,568	10,918,338

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) and other receivables.

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, 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. As a result, the market risk is immaterial.

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(i) Exposure to foreign currency risk

The Company's financial assets and liabilities exposed to significant foreign currency risk were as follows:

	December 31, 2021			December 31, 2020		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	477,159	27.68	13,207,749	243,465	28.48	6,933,897
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	304,481	27.68	8,428,022	136,678	28.48	3,892,580

(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 6% of the NTD against the USD as of December 31, 2021 and 2020, would have increased or decreased the net profit before income tax by \$286,784 thousand and \$182,479 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

For the years of 2021 and 2020, the foreign exchange losses (including realized and unrealized) were \$84,587 thousand and \$315,238 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Company.

(b) Interest rate risk

(i) Exposure to interest rate risk

The Company was exposed to interest rate risk because of holding bank deposits at floating interest rates. The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31, 2021	December 31, 2020
Fair value interest rate risk		
— Financial assets	\$ 4,898,021	4,552,181
— Financial liabilities	379,216	1,452,480
Cash flow interest rate risk		
— Financial assets	13,346,179	7,745,267

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(ii) Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Company's net profit before income tax for the years of 2021 and 2020 would have increased by \$1,335 thousand and \$775 thousand, respectively.

(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 Group's exposure to equity price risks at the end of the reporting date.

If equity prices had been 1% higher or lower, net profit before income tax for the years of 2021 and 2020 would have increased or decreased by \$14,554 thousand and \$55,761 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 1% higher or lower, the other comprehensive income before income tax for the years of 2021 and 2020 would have increased or decreased by \$4,389 thousand and \$1,992 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, 2021, and 2020, 40% and 32%, 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.

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(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 segregated foreign exchange deposit account for Offshore Funds and 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.

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 Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Company relies on bank borrowings as a significant source of liquidity.

(a) Loan Facilities

	December 31, 2021	December 31, 2020
Unsecured bank facilities		
Amount used	\$ 1,539,256	2,612,480
Amount unused	8,751,944	7,065,920
	\$ 10,291,200	9,678,400

(b) Analysis of the contractual maturities of financial liabilities

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, 2021					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 18,830,869	(18,830,869)	(18,830,869)	-	-
Lease liabilities	57,949	(58,845)	(26,823)	(32,022)	-
Bonds payable	3,412,855	(3,500,000)	-	(3,500,000)	-
Fixed interest rate liabilities	379,216	(379,697)	(379,697)	-	-
	\$ 22,680,889	(22,769,411)	(19,237,389)	(3,532,022)	-

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	<u>Carrying amount</u>	<u>Cash flow of contract</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
December 31, 2020					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 9,465,371	(9,465,371)	(9,465,371)	-	-
Lease liabilities	33,494	(34,655)	(15,749)	(18,906)	-
Fixed interest rate liabilities	1,452,480	(1,453,711)	(1,453,711)	-	-
	<u>\$ 10,951,345</u>	<u>(10,953,737)</u>	<u>(10,934,831)</u>	<u>(18,906)</u>	<u>-</u>

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).

(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, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 728,076	-	-	728,076
Domestic unlisted stocks	-	-	302,867	302,867
Foreign unlisted stocks	-	-	15,873	15,873
Domestic private equity funds	-	-	39,909	39,909
Beneficiary certificates—open-end funds	363,760	-	-	363,760
Derivative instruments—convertible bonds	-	-	4,900	4,900
	<u>\$ 1,091,836</u>	<u>-</u>	<u>363,549</u>	<u>1,455,385</u>

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	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	205,867	205,867
Foreign unlisted stocks	-	-	233,077	233,077
	\$ -	-	438,944	438,944
	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 505,377	-	-	505,377
Domestic unlisted stocks	-	-	314,214	314,214
Foreign unlisted stocks	-	-	18,350	18,350
Domestic private equity funds	-	-	42,033	42,033
Beneficiary certificates — open-end funds	4,696,149	-	-	4,696,149
	\$ 5,201,526	-	374,597	5,576,123
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	113,156	113,156
Foreign unlisted stocks	-	-	86,091	86,091
	\$ -	-	199,247	199,247

There were no transfers between Levels 1 and 2 for the years ended December 31, 2021 and 2020.

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	Total
	Private equity funds	Derivative instruments — convertible bonds	Equity instruments	Equity instruments	
January 1, 2021	\$ 42,033	-	332,564	199,247	573,844
Recognized in profit or loss	(2,124)	2,105	31,126	-	31,107
Recognized in other comprehensive income	-	-	-	134,692	134,692
Additions for the period	-	2,795	-	105,005	107,800
Proceeds from capital reduction	-	-	(25,150)	-	(25,150)
Transfer out of the level 3	-	-	(19,800)	-	(19,800)
December 31, 2021	\$ 39,909	4,900	318,740	438,944	802,493

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	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	Total
	Derivative instruments		Equity instruments	Equity instruments	
	Private equity funds	— convertible bonds			
January 1, 2020	\$ 45,408	94,770	360,467	213,736	714,381
Recognized in profit or loss	(3,375)	(2,391)	(8,763)	-	(14,529)
Recognized in other comprehensive income	-	-	-	(14,243)	(14,243)
Disposal	-	(92,379)	-	(246)	(92,625)
Proceeds from capital reductions	-	-	(19,140)	-	(19,140)
December 31, 2020	<u>\$ 42,033</u>	<u>-</u>	<u>332,564</u>	<u>199,247</u>	<u>573,844</u>

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

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

	December 31, 2021	December 31, 2020
Discount for lack of marketability	25% ~ 28.97%	15%

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

	December 31, 2021	December 31, 2020
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	2.50%	1.28%
WACC	7.02%~9.59%	12.68%~16.66%

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

	December 31, 2021	December 31, 2020
Discount for non-controlling interest	10%	10%
Discount for lack of marketability	10%	10%

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, 2021 was 43.39%.

(d) Fair value of financial instruments that are not measured at fair value

Except for the convertible bonds payable, the Company considers the carrying amounts of financial assets and liabilities not measured at fair value recognized in the parent company only financial statements to be approximate to their fair values or their fair values cannot be reliably measured. The fair values of convertible bonds payable are determined by the evaluation report provided by third party pricing services.

(24) 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, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Total liabilities	\$ 25,449,133	12,127,658
Total equity	37,308,434	35,155,467
Debt-to-adjusted-capital ratio	68%	34%

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

The release of convertible bonds resulted in the debt-to-equity ratio to increase as of December 31, 2021.

(25) Investing and financing activities not affecting current cash flow

A. For leased right-of-use assets, please refer to note 6(9).

B. Reconciliations of liabilities arising from financing activities were as follows:

	January 1, 2021	Cash flows	Foreign exchange movement and others	December 31, 2021
Short-term borrowings	\$ 1,452,480	(1,076,498)	3,234	379,216
Lease liabilities (current and non-current)	33,494	(21,098)	45,553	57,949
Bonds payable	-	3,511,309	(98,454)	3,412,855
Guarantee deposits received	487	141	-	628
Total liabilities from financing activities	\$ 1,486,461	2,413,854	(49,667)	3,850,648

	January 1, 2020	Cash flows	Foreign exchange movement and others	December 31, 2020
Short-term borrowings	\$ -	1,459,493	(7,013)	1,452,480
Lease liabilities (current and non-current)	33,222	(16,720)	16,992	33,494
Guarantee deposits received	393	94	-	487
Total liabilities from financing activities	\$ 33,615	1,442,867	9,979	1,486,461

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:

<u>Name of related party</u>	<u>Relationship with the Company</u>
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Hosin Global Electronics Co., Ltd. (HK)	Associate
Hefei Datang Storage Technology Co., Ltd.	Associate
SiliTai Electronics Co., Limited	Associate
Hosin Global Electronics Co., Ltd. (SZ)	Associate

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Associate
Kingston Solutions Inc.	Associate (Note 1)
Hefei Core Storage Electronic Limited	Subsidiary/Associate (Note 2)
Kioxia Corporation	Other related party
Kioxia America, Inc.	Other related party
Kioxia Taiwan Corporation	Other related party
Kioxia Asia, Limited	Other related party
Toshiba International Procurement HongKong, Ltd.	Other related party
Solid State Storage Technology Corporation Hsinchu Science Park Branch	Other related party
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
LIU, TIAN-PAI	Other related party
Lian Xu Dong Investment Corporation	Subsidiary
Phison Electronics Japan Corp.	Subsidiary
Phison Technology Inc.	Subsidiary
Emtops Electronics Corp.	Subsidiary
Ostek Corporation	Subsidiary
Phisontech Electronics Taiwan Corp.	Subsidiary
Memoryexchange Corporation	Subsidiary (Note 3)
Super Storage Technology Corporation	Other related party/ Subsidiary (Note 4)

Note 1: Since September 4, 2020, Kingston Solutions Inc. was no longer a related party of the Company.

Note 2: Since November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and became an associate of the Company.

Note 3: Memoryexchange Corporation ended operations since March 2021 and was in the process of liquidation.

Note 4: Since July 1, 2020, Super Storage Technology Corporation became a subsidiary of the Company.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

(2) Significant transactions with related parties

A. Operating revenues

The amounts of significant sales by the Company to related parties were as follows:

<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Subsidiaries	\$ 185	674,248
Associates	7,183,771	1,380,219
Other related parties	2,961,939	1,997,894
	<u>\$ 10,145,895</u>	<u>4,052,361</u>

The credit terms to non-related parties and related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price of the Company for related parties and that from the third parties.

B. Purchase of goods and Processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Associates	\$ 182,447	318,062
Other related party – Kioxia Taiwan Corporation	14,676,478	9,876,557
Other related parties	247	718,385
	<u>\$ 14,859,172</u>	<u>10,913,004</u>

(b) Processing costs

<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Subsidiaries	\$ 452,929	207,254
Associates	-	42
Other related parties	2,433,741	1,943,977
	<u>\$ 2,886,670</u>	<u>2,151,273</u>

The payment terms to related parties were ranged from EOM 7 days to Net 75 days and that to non-related parties were ranged from T/T in advance to Net 90 days. There was no significant difference between the purchase price and payment terms of the Company from related parties and that of the third parties.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

C. Payables to related parties

<u>Related Party Category / Name</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Subsidiaries	\$ -	7
Associate – Hosin Global Electronics Co., Ltd. (HK)	1,614,392	116,308
Associates	553,795	231,560
Other related parties	652,856	321,413
	<u>2,821,043</u>	<u>669,288</u>
Less: Loss allowance	(7,519)	-
	<u>\$ 2,813,524</u>	<u>669,288</u>

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

<u>Related Party Category / Name</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Subsidiaries	\$ 99,277	47,920
Associates	-	17,918
Other related party – Kioxia Taiwan Corporation	2,764,162	1,063,257
Other related parties	436,145	208,547
	<u>\$ 3,299,584</u>	<u>1,337,642</u>

E. Other transactions

<u>Account Name</u>	<u>Related Party Category / Name</u>	<u>2021</u>	<u>2020</u>
Operating Costs	Subsidiaries	\$ 25,424	15,711
	Other related parties	1,334	8,704
		<u>\$ 26,758</u>	<u>24,415</u>
Operating Expenses	Subsidiaries	\$ 322,806	332,295
	Associates	277,377	49,942
	Other related parties	11,955	6,805
		<u>\$ 612,138</u>	<u>389,042</u>
Non-operating incomes	Subsidiaries	\$ 1,837	1,060
	Associates	1,405	2,544
	Other related parties	21,781	3,181
		<u>\$ 25,023</u>	<u>6,785</u>

As of December 31, 2021 and 2020, the receivables arising from above transactions were \$26,700 thousand and \$1,153 thousand, respectively (recognized as other receivables), and the payables arising from above transactions were \$92,543 thousand and \$67,946 thousand, respectively (recognized as other current liabilities).

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

The related parties distributed \$1,742,114 thousand and \$341,164 thousand cash dividends to the Company for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the aforementioned dividends had been received.

The Company leased the office to related parties with lease terms and prices determined based on mutual agreements. The payment term for rental is 30~45 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:

	<u>2021</u>	<u>2020</u>
Short-term employee benefits	\$ 561,395	510,947
Post-employment benefits	1,988	3,116
Share-based payments	86,679	78,476
	<u>\$ 650,062</u>	<u>592,539</u>

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(18) for further explanations related to share-based payment.

8. Pledged assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	<u>\$ 40,459</u>	<u>40,409</u>

9. Commitments and contingencies

(1) Significant commitments

A. The Company' s unused letters of credit

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unused letters of credit	<u>\$ 1,160,000</u>	<u>1,160,000</u>

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

B. The unpaid amounts of construction, plant and equipment that have been signed or ordered were as follows:

	December 31, 2021	December 31, 2020
	\$ 373,455	1,612,315

(2) Purchase commitment

The Company entered into a long-term purchase agreement of material with a supplier and paid partial guarantee deposit as agreed. The relative purchase quantity and price of wafers are specified in the agreement.

10. Losses due to major disasters: None

11. Subsequent events

- (1) The Company's Board of Directors resolved on December 17, 2021, to acquire 6,120 shares (51% of ownership interests) of Nextorage Corporation from Sony Storage Media Solutions Corporation in cash amounting to JP\$578,217 thousand. The transaction has been completed and Nextorage has become a subsidiary of the Company since January 1, 2022.
- (2) The Company's Board of Directors resolved on January 21, 2022, 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 composite leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount is \$346,660 thousand.

12. Other

- (1) A summary of current-period employee benefits, depreciation, and amortization, by function, was as follows:

	By function	For the year ended December 31					
		2021			2020		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		334,337	6,949,459	7,283,796	237,049	5,641,661	5,878,710
Labor and health insurance		35,181	259,350	294,531	24,442	184,173	208,615
Pension		14,784	134,328	149,112	11,495	103,686	115,181
Remuneration of directors		-	50,000	50,000	-	39,283	39,283
Others		25,754	128,856	154,610	29,157	285,774	314,931
Depreciation		102,640	293,676	396,316	78,720	262,249	340,969
Amortization		506	270,306	270,812	42	200,082	200,124

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

The following provides information of the number of employees and employee benefits in 2021 and 2020, respectively:

	2021	2020
Number of employees	2,584	2,000
Number of directors who were not employees	5	4
Average employee benefit costs	\$ 3,056	3,265
Average employee salary expenses	\$ 2,824	2,945
Adjustment of average employee salary expenses	(4.11)%	
Remuneration of supervisors (Note)	\$ -	5,717

Note: The Audit Committee was set up to replace supervisors in June 2020, in accordance with Securities and Exchange Act and the Company's Articles.

Remuneration policies for directors, supervisors, managerial personnel and employee were as follows:

The Company's policy on the remuneration of directors and supervisors: 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) When considering the impact of the COVID-19 pandemic, the Company assessed that the pandemic had no significant influence on its finance and operations, and there were no doubts about its ability to continue as a going concern in relation to the recognition of an impairment loss and the risk of financing.
- (3) 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 actions:
 - A. To ask to remove Mr. K.S. Pua from the Company’ s Board Director Position (“Removal Action”);
 - B. To claim monetary damage amounting to \$697,389 thousand against the Company, Mr. K.S. Pua and other co-defendants (“Claim 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 Hsinchu District Court rendered judgment on February 18, 2022 to dismiss the Removal Action, and the current status is to see whether SFIPC will file petition for appeal or not. 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 on 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 on 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, 2021 (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: Please refer to Table 2.
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 3.
- 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\$300 million or 20% of the capital stock: Please refer to Table 4.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 5.

I. Trading in derivative instruments: Please refer to Notes 6(2).

(2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 6.

(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 7.

B. Limitation on investment in Mainland China: Please refer to Table 7.

C. Significant transactions:

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	10.05%

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, 2021.

Phison Electronics Corp.
Securities held as of December 31, 2021 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2021

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	
The Company	<u>Beneficiary certificates — open-end funds</u>						
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss — current	16,326	206,978	-	206,978
	FSITC Taiwan Money Market Fund	-	Same as above	10,134	156,782	-	156,782
	<u>Common shares</u>						
	Apacer Technology Inc.	-	Same as above	10,050	488,932	9.87%	488,932
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	194,414	0.89%	194,414
	Acer Synergy Tech Corp.	-	Same as above	900	44,730	6.91%	44,730
					728,076		
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss — non-current	5,355	229,089	11.11%	229,089
	Taishan Buffalo Investment Co., Ltd.	-	Same as above	46,300	42,583	1.08%	42,583
	Innorich Venture Capital Corp.	-	Same as above	3,000	17,124	5.61%	17,124
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	15,873	0.67%	15,873
	AppWorks Fund I Co., Ltd.	-	Same as above	728	14,071	18.75%	14,071
					318,740		

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	216,047	17.16%	216,047
	AppWorks Fund III Co., Ltd.	-	Same as above	10,000	105,005	2.92%	105,005
	UD INFO Corp.	-	Same as above	1,252	72,290	17.40%	72,290
	Adam Elements International Co., Ltd.	-	Same as above	1,710	28,572	19.00%	28,572
	Gomore Inc.	-	Same as above	16,925	8,649	3.39%	8,649
	H3 Platform, Inc.	-	Same as above	18,400	4,755	12.14%	4,755
	Gospal Ltd.	-	Same as above	811,857	3,626	3.19%	3,626
	Aptos Technology Inc.	-	Same as above	529	-	0.60%	-
	THLight Co., Ltd.	-	Same as above	6,388	-	12.54%	-
	GeoThings, Inc.	-	Same as above	150	-	5.36%	-
	Ironyun Incorporated	-	Same as above	5,000	-	5.64%	-
	<u>Private equity funds</u>				438,944		
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss — non-current	6,000	39,909	3.81%	39,909
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	50,475	1.18%	50,475
	Translink Capital Partners IV L.P	-	Same as above	790	42,445	0.59%	42,445
							92,920

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	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income—non-current	2,111	107,247	4.79%	107,247
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	25,000	25,000	3.19%	25,000
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	25,000	25,000	11.90%	25,000
	New Future III Limited Partnership	-	Same as above	19,967	19,967	6.37%	19,967
	Omni Media International Incorporation	-	Same as above	1,714	6,655	2.60%	6,655
Emtops Electronics Corporation	UMBO CV INC. (preference shares)	-	Same as above	1,626	-	2.34%	-
	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income—non-current	-	183,869	-	-
		-		-	-	19.00%	-
Phisontech Electronics	<u>Beneficiary certificates-open-end funds</u>						
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss—non-current	167	30,075	-	30,075
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,039	-	20,039
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,038	-	20,038
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,035	-	20,035
Capital Money Market Fund	-	Same as above	1,229	20,031	-	20,031	
							110,218

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	
Super Storage Technology Corporation	<u>Common shares</u> Power Research Technology Corp.	-	Financial assets at fair value through other comprehensive income-non-current	833	11,944	13.88%	11,944	

Phison Electronics Corp.
Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock
For the year ended December 31, 2021

Table 2 (Shares in Thousands /Amounts in Thousands)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance (Note 1)		
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Core Storage Electronic (Samoa) Limited and RealYou Investment Limited	Hosin Global Electronics Co., Ltd. (SZ)	Investments accounted for using the equity method	Juridical Person	Associates	104,500	1,973,587	54,095 (Note 2)	1,388,832 (Note 2)	-	-	-	-	158,595	3,402,515

Note 1: The amounts of the beginning and ending balances include the valuation gains or losses on investments accounted for using the equity method.

Note 2: Please refer to consolidated financial statements note 6(7) for related transaction.

Phison Electronics Corp.
Acquisition of Individual Real Estate Properties at Costs of at least NT\$300 Million or 20% of the paid-in capital
For the year ended December 31, 2021

(Amounts in Thousands)

Table 3

Company Name	Types of Property	Transaction Date	Transaction Amount	Status of Payment	Counter-Party	Nature of Relationships	Prior Transaction of Related Counter-Party			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship with the Company	Date of Transfer			
The Company	Land	May 27, 2021 (Note)	607,865	Full payment	TYNTEK CORPORATION	None	-	-	-	Appraisal report, market value announced, and actual price registration of transactions in the neighborhood	For operational use	None

Note: The purchase of the land was approved by the Board of Directors, and was recognized under property, plant and equipment after the inspection in November 2021.

Phison Electronics Corp.

**Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock
For the year ended December 31, 2021**

Table 4

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship of the Company's director	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	
The Company	Kioxia Taiwan Corporation	The subsidiary of the Company's director	Purchase	14,676,478	33%	Net 30 days after monthly closing	None	None	(2,764,162)	(30)%
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-sidiary's associate	Purchase	161,201	-	Net 7 days after receipt date and Net 75 days after monthly closing	None	None	-	-
	Orient Semiconductor Electronics, Ltd.	The Company is its director	Processing cost	2,433,741	6%	Net 30 days after monthly closing	None	None	(436,145)	(5)%
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	433,389	1%	Net 30 days after monthly closing	None	None	(94,765)	(1)%
	Kioxia Corporation	The Company's director	Sales	(1,247,331)	(2)%	Net 60 days after monthly closing	None	None	303,871	3%
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The subsidiary of the Company's director	Sales	(433,889)	(1)%	Net 60 days after monthly closing and Net 90 days after receipt date	None	None	116,120	1%
	Apacer Technology Inc.	The Company is its director	Sales	(1,146,901)	(2)%	Net 45 days after monthly closing	None	None	202,185	2%

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)	
	Hefei Core Storage Electronic Limited	The subsidiary of the sub-sub-subsidiary's associate	Sales	(910,400)	(1)%	Net 30 days after receipt date and Net 45 days after monthly closing	None	None	279,963	3%	
	Hefei Datang Storage Technology Co.,Ltd.	The subsidiary of the sub-sub-subsidiary's associate	Sales	(605,934)	(1)%	Net 60 days after receipt date	None	None	131,654	2%	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associate	Sales	(4,695,138)	(8)%	Net 30 days after receipt date and Net 45 days after monthly closing	None	None	1,611,002	18%	
The Company	ProGrade Digital Inc.	Investee accounted for using the equity method	Sales	(442,435)	(1)%	Net 30 days after receipt date	None	None	81,224	1%	
	Nextorage Corporation	Investee accounted for using the equity method	Sales	(490,030)	(1)%	Net 60 days after monthly closing	None	None	58,162	1%	

Note: The sales and purchase prices to related parties were similar to those offered to unrelated parties.

Phison Electronics Corp.
Receivables from Related Parties Amounting to at least NT\$100 Million or 20% of the Paid-in Capital
December 31, 2021

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period (Note)	Allowance for Bad Debts
					Amount	Action Taken		
The Company	Apacer Technology Inc.	The Company is its director	202,185	5.10	-	-	202,185	425
	Kioxia Corporation	The Company's director	303,871	7.21	-	-	303,871	639
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The subsidiary of the Company's directors	116,120	6.28	-	-	61,157	244
	Hefei Core Storage Electronic Limited	The subsidiary of the sub-sub-subsidiary's associate	279,963	5.77	-	-	279,963	589
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associate	1,611,002	5.44	-	-	1,253,033	3,390
	Hefei Datang Storage Technology Co., Ltd.	Investee accounted for using the equity method	131,654	5.19	48,193	Collection in subsequent period	116,014	1,876

Note: Information as of March 1, 2022.

Phison Electronics Corp.
Information on Investees (Excluding Information on Investees in Mainland China)
For the year ended December 31, 2021

Table 6

(Shares in Thousands /Amount in Thousands)

The following is the information on investees for the years ended December 31, 2020 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2021	December 31, 2020	Shares	Percentage of Ownership	Carrying Value			
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00%	2,753,036	76,048	76,048	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00%	1,246,189	63,742	63,742	Subsidiary
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	58	581,363	55,000,000	100.00%	664,963	51,881	52,000	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00%	589,527	45,665	45,665	Subsidiary
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	133,988	6,288,523	30.51%	421,077	(8,212)	(3,205)	Investee accounted for using the equity method
	Emitops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00%	358,981	4,730	4,730	Subsidiary
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	105,440	4,800,000	100.00%	135,870	(661)	(661)	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00%	108,037	2,904	2,904	Subsidiary
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	30.27%	98,019	100,196	31,905	Investee accounted for using the equity method

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2021	December 31, 2020	Shares	Percentage of Ownership	Carrying Value			
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	81,232	81,232	5,880	49.00%	74,263	46,479	22,776	Investee accounted for using the equity method
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000.0	100.00%	29,222	980	980	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00%	23,282	623	305	Investee accounted for using the equity method
	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00%	6,502,466	595	297,189	Sub-subsidiary
Lian Xu Dong Investment Corporation	Phison Technology Inc.	USA	Sales and service office	90,419	90,419	3,000,000	100.00%	97,568	5,628	Note 1	Sub-subsidiary
Emtops Electronics Corporation	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00%	543,450	53,782	Note 1	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00%	2,717,008	59,096	Note 1	Sub-subsidiary
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%	86,285	53	Note 1	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Manufacture and sale of flash memory related products	-	191,986	-	-	-	(435)	Note 1	Note 2
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00%	1,253,334	63,824	Note 1	Sub-subsidiary

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: Memoryexchange Corporation ended operations since March 2021 and was in the process of liquidation.

Phison Electronics Corp.
Information on Investment in Mainland China
For the year ended December 31, 2021

Table 7

(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, 2021	Investment Flows		Accumulated Outflow of Investment from December 31, 2021	Net Income (Losses) of the Investee	Percentage of Ownership	Investment Income (Losses) (Note 2)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2021	Note
					Outflow	Inflow							
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic product and technical support service and rendering of related services	-	2(2)	630,990	-	-	630,990	-	-	(5,182)	-	-	Note 3
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	(23,107)	100.00%	(23,107)	145,593	-	
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services	735,136	2(1)	-	-	-	-	(95,225)	24.23%	(23,075)	135,887	-	
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,647,590	2(1) and 2(2)	442,780	-	-	442,780	592,721	42.63%	267,210	3,402,515	-	

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 4)
1,256,595	1,336,236	22,385,060

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

Note 2: The financial statements were audited by the Company's accountants based on the materiality standards and recognized shares of the associates accounted for using the equity method.

Note 3: Please refer to consolidated financial statements note 6(8) for related transactions.

Note 4: 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, 2021
(Expressed in thousands of New Taiwan Dollars)
(Foreign Currencies Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash	Petty cash and cash on hand	\$ <u>200</u>
	Demand deposits	9,057,683
	Time deposits	4,857,562
	Foreign currency deposits (USD : 130,481,905.65 ; JPY : 612,295,114 ; CNY : 291,330.77)	<u>3,760,262</u>
	Subtotal	<u>17,675,507</u>
	Total	<u>\$ 17,675,707</u>

Note: The exchange rates at the balance sheet date were as follows:

USD to NTD: 27.68

JPY to NTD: 0.2405

CNY to NTD: 4.344

Phison Electronics Corp.
Statement of Financial Assets Measured at Fair
Value through Profit or Loss – Current and
Non-current
December 31, 2021

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
For the year ended December 31, 2021

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, 2021
(Expressed in thousands of New Taiwan Dollars)

Name of customer	Amount
Related parties	
Company A	\$ 1,614,392
Company B	304,510
Company C	280,552
Company D	202,610
Others (the amount of individual customer does not exceed 5% of the account balance)	418,979
Subtotal	2,821,043
Less: loss allowance	(7,519)
	\$ 2,813,524
Unrelated parties	
Company E	\$ 846,389
Company F	409,388
Company G	372,077
Company H	311,451
Others (the amount of individual customer does not exceed 5% of the account balance)	4,015,654
Subtotal	5,954,959
Less: loss allowance	(40,190)
	\$ 5,914,769

Note: Accounts receivable are generated from operating activities.

Phison Electronics Corp.

Statement of Inventories

December 31, 2021

(Expressed in thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Net realizable value
Raw materials	\$ 11,809,699	14,944,821
Work in process	4,642,900	5,964,259
Semi-finished goods	2,902,052	3,409,216
Finished goods	136,467	157,979
Total	\$ 19,491,118	24,476,275

Statement of Other Current Assets

Item	Amount
Temporary payments	\$ 1,822

Phison Electronics Corp.

Statement of Prepayments

December 31, 2021

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Prepaid insurance	\$ 5,169
Prepayment for purchases	4,318
Others (individual amount does not exceed 5% of the account balance)	<u>8,726</u>
Total	<u>\$ 18,213</u>

Phison Electronics Corp.

Statement of Movements in Investments Accounted for Using the Equity Method

December 31, 2021

(Expressed in thousands of New Taiwan Dollars, in thousands shares)

Name of investee	Beginning balance		Increase (Decrease)		Share of profits/losses of investee	Cash dividends	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		Pledged as collateral		
	Shares	Amount	Shares	Amount								Shares	Amount		Percentage of ownership	Net assets value
Global Flash Limited	22,100	\$ 4,387,550	-	-	76,048	(1,440,500)	186,064	(60,658)	-	(388,318)	(7,150)	22,100	2,753,036	100.00	2,764,669	None
Regis Investment (Samoa) Limited	21,900	1,142,311	-	-	63,742	-	84,927	(13,775)	-	(27,719)	(3,297)	21,900	1,246,189	100.00	1,254,527	None
Phisontech Electronics Taiwan Corp	55,000	609,344	-	-	52,000	-	-	-	3,619	-	-	55,000	664,963	100.00	664,749	None
Lian Xu Dong Investment Company	65,000	582,534	-	-	45,665	-	158	-	(38,830)	-	-	65,000	589,527	100.00	589,527	None
EpoStar Electronics (BVI) Corporation	10,600	269,809	(4,311)	(54,457)	(3,205)	(71,312)	-	-	287,188	(6,946)	-	6,289	421,077	30.51	1,380,124	None
Emtops Electronics Corp.	38,000	354,492	-	-	4,730	-	2,618	(2,859)	-	-	-	38,000	358,981	100.00	358,981	None
Power Flash (Samoa) Limited	3,200	94,274	1,600	44,750	(661)	-	-	(2,493)	-	-	-	4,800	135,870	100.00	135,870	None
Everspeed Technology Limited	1,000	315,133	-	-	2,904	(210,000)	-	-	-	-	-	1,000	108,037	100.00	108,037	None
ProGrade Digital Inc.	2,785	88,400	-	-	31,905	-	(2,466)	(1,389)	-	-	(18,431)	2,785	98,019	30.27	210,676	None
Nextorage Corporation	6	98,233	-	-	22,776	-	-	(21,028)	-	-	(25,718)	6	74,263	49.00	313,837	None
Phison Electronics Japan Corp.	2	32,512	-	-	980	-	-	(4,270)	-	-	-	2	29,222	100.00	29,222	None
Microtops Design Company	2,264	22,977	-	-	305	-	-	-	-	-	-	2,264	23,282	49.00	47,515	None
Total		\$ 7,997,569		(9,707)	297,189	(1,721,812)	271,301	(106,472)	251,977	(422,983)	(54,596)		6,502,466		7,857,734	

Phison Electronics Corp.
Statement of Movement in Right-of-Use Assets
For the year ended December 31, 2021

Please refer to note 6(9) for further information of lease.

Statement of Movement in Intangible Assets
For the year ended December 31, 2021

Please refer to note 6(10) for further information of intangible assets.

Statement of Other Non-current Assets
For the year ended December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Refundable deposits	\$ 525,282
Prepayments for equipment	58,332
	<u>\$ 583,614</u>

Phison Electronics Corp.
Statement of Short-Term Borrowings
December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

<u>Bank</u>	<u>Description</u>	<u>Ending balance</u>	<u>Contract period</u>	<u>Range of interest rate</u>	<u>Unused credit lines</u>	<u>Pledged as collateral</u>
Taiwan Land Bank	Operating capital	<u>\$ 379,216</u>	Note 1	Note 3	<u>\$ 620,784</u>	None

Note 1: The contract period is usually within three months depending on the actual operating needs.
The operating cycle is one year.

Note 2: Except for the abovementioned unused credit lines, the Company had the remaining unused credit lines of \$8,131,160 thousand.

Note 3: The range of interest rate is 0.5%~0.51%.

Phison Electronics Corp.
Statement of Accounts Payable
December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

Vendor name	Amount
Related parties	
Company I	\$ 2,764,162
Company J	436,145
Others (the amount of individual vendor does not exceed 5% of the account balance)	<u>99,277</u>
	<u>\$ 3,299,584</u>
Unrelated parties	
Company K	\$ 1,998,551
Company L	674,667
Company M	411,497
Others (the amount of individual vendor does not exceed 5% of the account balance)	<u>2,747,573</u>
	<u>\$ 5,832,288</u>

Note: Accounts payable are generated from operating activities.

Phison Electronics Corp.
Statement of Other Payables
December 31, 2021

Please refer to note 6(12) for further information of other payables

Statement of Other Current Liabilities
December 31, 2021

Please refer to note 6(13) for further information of other current liabilities

Phison Electronics Corp.
Statement of Lease Liabilities
December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Summary</u>	<u>Lease period</u>	<u>Discount rate</u>	<u>Ending balance</u>	<u>Note</u>
Building	Plant and dormitory	April 1, 2019~ October 31, 2026	0.508%-3.78%	\$ 56,590	
Transportation equipment	Company car	August 1, 2020~ November 1, 2023	0.579%-2.08%	522	
Others	Parking lot	April 1, 2020~ March 31, 2022	2.08%	<u>837</u>	
				57,949	
Less: lease liabilities, current portion				<u>(26,271)</u>	
				<u>\$ 31,678</u>	

Phison Electronics Corp.
Statement of Operating Revenue
December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>
Operating revenue:		
Flash memory module products	156,486 thousand	\$ 50,550,804
Integrated Circuit	33,223 thousand	1,520,882
Controllers	346,655 thousand	9,509,613
Others		<u>1,990,950</u>
		63,572,249
Less: Sales returns and allowances		<u>(1,019,426)</u>
Net operating revenue		<u><u>\$ 62,552,823</u></u>

Phison Electronics Corp.
Statement of Operating Costs
December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Raw materials	
Beginning balance of raw materials	\$ 5,298,146
Add: Raw materials purchased	44,243,440
Less: Others	335,976
Ending balance of raw materials	11,809,699
Direct raw material	37,395,911
Direct labor	56,162
Manufacturing overhead	8,872,774
Manufacturing cost	46,324,847
Add: Beginning balance of work-in -process	3,521,681
Beginning balance of semi-finished goods	1,267,154
Work-in-process and semi-finished goods purchased	429,773
Less: Ending balance of work-in -process	4,642,900
Ending balance of semi-finished goods	2,902,052
Others	408,358
Cost of finished goods	43,590,145
Add: Beginning balance of finished goods	49,886
Less: Ending balance of finished goods	136,467
Others	2,067
Cost of finished goods	43,501,497
Add: Merchandise purchased	3,905
Less: others	1,338
Total cost of sales	\$ 43,504,064

Phison Electronics Corp.
Statement of Operating Expenses
December 31, 2021
(Expressed in thousands of New Taiwan Dollars)

Item	Marketing expenses	General and administrative expenses	Research and development expenses	Expected credit loss (gain)
Payroll expense	\$ 384,288	577,561	6,038,403	-
Promotion service	319,121	-	-	-
Royalty expense	95,844	-	20,466	-
Commission expense	79,617	-	-	-
Depreciation	2,167	40,238	251,270	-
Impairment loss	-	-	-	6,600
Others (individual amount does not exceed 5% of the account balance)	164,807	161,592	1,818,632	-
Total	\$ 1,045,844	779,391	8,128,771	6,600

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, 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2021	Net Income (Losses) of the Investee	Percentage of Ownership	Highest percentage of ownership during the year	Investment Income (Losses) (Note 2)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2021	Note
					Outflow	Inflow								
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,647,590	2(1) and 2(2)	442,780	-	-	442,780	592,721	42.63%	44.35%	267,210	3,402,515	-	

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 4)
1,256,595	1,336,236	22,385,060

Note 1: Method of investment.

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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

Note 2: The financial statements were audited by the Company's accountants based on the materiality standards and recognized shares of the associates accounted for using the equity method.

Note 3: Please refer to consolidated financial statements note 6(8) for related transactions.

Note 4: 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 5: The aforementioned inter-company transactions have been eliminated in the consolidated financial statements.

Phison Electronics Corp.

Chairman: Wee Kuan Gan



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