

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2019 and 2018 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Introduction

We have reviewed the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprise the consolidated balance sheets as of September 30, 2019 and 2018, the consolidated statements of comprehensive income for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2019 and 2018, and the related notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as stated in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements were not reviewed. As of September 30, 2019 and 2018, the combined total assets of these subsidiaries were 9% (NT\$3,290,931 thousand) and 7% (NT\$2,375,825 thousand) of the Group's total assets, respectively, and total liabilities of these subsidiaries were 5% (NT\$416,666 thousand) and 6% (NT\$601,787 thousand) of the Group's total liabilities, respectively. For the three months and the nine months ended September 30, 2019 and 2018, these subsidiaries' comprehensive income and loss were 13% (a gain of NT\$232,298 thousand), (2%) (a loss of NT\$29,028 thousand), 10% (a gain of NT\$347,548 thousand) and 0% (a loss of NT\$8,989 thousand), respectively, of the Group's comprehensive income and loss. Furthermore, as stated in Note 13 to the consolidated financial statements, the Group's investments accounted for using the equity method as of September 30, 2019 and 2018 amounted to NT\$1,448,293 thousand and NT\$1,876,226 thousand, respectively, and the share of profit or loss of these associates accounted for using the equity method for the

three months and the nine months ended September 30, 2019 and 2018 were a gain of NT\$2,666 thousand, a loss of NT\$108,567 thousand, a loss of NT\$325,600 thousand and a loss of NT\$24,261 thousand, respectively. As stated in Note 32 to the consolidated financial statements, these investment amounts and the related information of the investees disclosed in the notes to the consolidated financial statements were based on unreviewed financial statements for the same reporting periods as those of the Corporation.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and associates accounted for using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of September 30, 2019 and 2018, its consolidated financial performance for the three months ended September 30, 2019 and 2018 and the nine months ended September 30, 2019 and 2018, and its consolidated cash flows for the nine months ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Emphasis of Matter

As stated in Note 31 to the accompanying consolidated financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutors Office and was concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutors Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code of the Republic of China, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutors Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, with regard to the partial revocation and partial dismissal charge by the Taiwan High Prosecutors Office against the chairman of the Corporation and others. On July 30, 2019, the Taiwan Hsinchu District Prosecutors Office concluded the investigation and prosecuted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. The Prosecutor’s indictment shall be submitted for a retrial in the Taiwan Hsinchu District Court. On November 8, 2019, the Corporation was informed by Hsin Chu District Court that the Securities and Futures Investors Protection Center had instituted a lawsuit in court for an order dismissing the board of director against the Corporation and the chairman of the board of director. The Corporation has appointed attorneys to defend against this lawsuit. Our review conclusion is not modified in respect of this matter.

The engagement partners on the reviews resulting in this independent auditors' review report are Hsin Wei Tai and Li Wen Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 11, 2019

Notice to Readers

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 9,456,533	26	\$ 14,176,396	39	\$ 13,399,659	38
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 26)	3,458,683	10	3,077,540	8	2,118,752	6
Financial assets at amortized cost (Notes 9 and 28)	56,648	-	67,217	-	66,922	-
Notes and accounts receivable						
Non-related parties (Note 10)	5,836,889	16	4,899,709	14	5,313,490	15
Related parties (Notes 10 and 27)	664,684	2	344,249	1	254,651	1
Other receivables (Note 10)	254,247	1	273,062	1	376,582	1
Current tax assets	39,122	-	23,448	-	20,970	-
Inventories (Note 11)	9,606,394	27	7,576,721	21	7,556,250	21
Prepayments	48,479	-	63,194	-	137,587	1
Other current assets	96,052	-	104,271	-	74,665	-
Total current assets	29,517,731	82	30,605,807	84	29,319,528	83
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 26)	449,253	1	427,789	1	394,420	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Notes 8 and 26)	725,504	2	450,397	1	450,986	1
Investments accounted for using the equity method (Note 13)	1,448,293	4	1,494,049	4	1,876,226	5
Property, plant and equipment (Note 14)	3,137,183	9	2,990,231	8	2,921,973	8
Right-of-use assets (Note 15)	34,876	-	-	-	-	-
Intangible assets (Note 16)	227,276	1	152,550	1	147,823	1
Deferred tax assets	300,923	1	310,563	1	325,696	1
Guarantee deposits paid	5,029	-	7,154	-	4,767	-
Total non-current assets	6,328,337	18	5,832,733	16	6,121,891	17
TOTAL	\$ 35,846,068	100	\$ 36,438,540	100	\$ 35,441,419	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Contract liabilities	\$ 122,280	-	\$ 34,270	-	\$ 40,605	-
Notes and accounts payable						
Non-related parties	2,202,949	6	1,949,403	5	2,232,366	6
Related parties (Note 27)	1,049,963	3	2,856,144	8	2,418,032	7
Other payables (Note 17)	3,467,584	10	3,716,898	10	3,738,626	11
Tax payable	418,017	1	523,854	2	438,495	1
Lease liabilities (Note 15)	11,825	-	-	-	-	-
Other current liabilities (Note 18)	533,975	1	339,062	1	353,413	1
Total current liabilities	7,806,593	21	9,419,631	26	9,221,537	26
NON-CURRENT LIABILITIES						
Lease liabilities (Note 15)	23,348	-	-	-	-	-
Long-term deferred revenue	5,989	-	14,068	-	11,156	-
Net defined benefit liabilities	93,333	-	92,827	-	88,087	-
Guarantee deposits received	134	-	144	-	144	-
Total non-current liabilities	122,804	-	107,039	-	99,387	-
Total liabilities	7,929,397	21	9,526,670	26	9,320,924	26
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 20)						
Share capital						
Common shares	1,970,740	6	1,970,740	6	1,970,740	6
Capital surplus	6,695,551	19	6,674,650	18	6,674,831	19
Retained earnings						
Legal reserve	3,850,715	11	3,418,903	9	3,418,903	10
Special reserve	380,927	1	-	-	-	-
Unappropriated earnings	15,138,721	42	15,228,504	42	14,579,340	41
Total retained earnings	19,370,363	54	18,647,407	51	17,998,243	51
Other equity	(147,393)	-	(380,927)	(1)	(523,319)	(2)
Total equity attributable to owners of the Corporation	27,889,261	79	26,911,870	74	26,120,495	74
NON-CONTROLLING INTERESTS	27,410	-	-	-	-	-
Total equity	27,916,671	79	26,911,870	74	26,120,495	74
TOTAL	\$ 35,846,068	100	\$ 36,438,540	100	\$ 35,441,419	100

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

(With Deloitte & Touche auditors' review report dated November 11, 2019)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Note 27)								
Gross sales	\$ 12,714,574	103	\$ 11,118,898	101	\$ 31,784,265	101	\$ 30,778,319	101
Less: Sales returns and allowances	<u>353,945</u>	<u>3</u>	<u>123,187</u>	<u>1</u>	<u>496,913</u>	<u>2</u>	<u>248,141</u>	<u>1</u>
Net sales	12,360,629	100	10,995,711	100	31,287,352	99	30,530,178	100
Other operating revenue	<u>33,274</u>	<u>-</u>	<u>41,122</u>	<u>-</u>	<u>232,695</u>	<u>1</u>	<u>135,354</u>	<u>-</u>
Total operating revenue	12,393,903	100	11,036,833	100	31,520,047	100	30,665,532	100
OPERATING COSTS (Notes 11, 22 and 27)	<u>8,995,668</u>	<u>73</u>	<u>8,192,756</u>	<u>74</u>	<u>23,851,042</u>	<u>76</u>	<u>23,679,571</u>	<u>77</u>
GROSS PROFIT	<u>3,398,235</u>	<u>27</u>	<u>2,844,077</u>	<u>26</u>	<u>7,669,005</u>	<u>24</u>	<u>6,985,961</u>	<u>23</u>
OPERATING EXPENSES (Note 22)								
Marketing	158,874	1	146,196	1	402,295	1	377,079	1
General and administrative	175,390	1	126,863	1	415,144	1	329,918	1
Research and development	1,319,083	11	1,033,083	10	3,043,389	10	2,470,310	8
Recognized (reversed) expected credit losses (Note 10)	<u>11,450</u>	<u>-</u>	<u>113</u>	<u>-</u>	<u>(58,686)</u>	<u>-</u>	<u>(40,399)</u>	<u>-</u>
Total operating expenses	<u>1,664,797</u>	<u>13</u>	<u>1,306,255</u>	<u>12</u>	<u>3,802,142</u>	<u>12</u>	<u>3,136,908</u>	<u>10</u>
OPERATING INCOME	<u>1,733,438</u>	<u>14</u>	<u>1,537,822</u>	<u>14</u>	<u>3,866,863</u>	<u>12</u>	<u>3,849,053</u>	<u>13</u>
NON-OPERATING INCOME AND EXPENSES								
Other gains and losses (Note 22)	23,498	-	(11,603)	-	132,983	-	155,368	1
Share of losses of associates	2,666	-	(108,567)	(1)	(325,600)	(1)	(24,261)	-
Other income (Note 22)	136,461	1	61,519	1	239,521	1	129,214	-
Financial costs	<u>(570)</u>	<u>-</u>	<u>(256)</u>	<u>-</u>	<u>(1,768)</u>	<u>-</u>	<u>(3,749)</u>	<u>-</u>
Total non-operating income and expenses	<u>162,055</u>	<u>1</u>	<u>(58,907)</u>	<u>-</u>	<u>45,136</u>	<u>-</u>	<u>256,572</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	1,895,493	15	1,478,915	14	3,911,999	12	4,105,625	14
INCOME TAX EXPENSE (Note 21)	<u>262,965</u>	<u>2</u>	<u>75,837</u>	<u>1</u>	<u>616,582</u>	<u>2</u>	<u>584,048</u>	<u>2</u>
NET PROFIT FOR THE PERIOD	<u>1,632,528</u>	<u>13</u>	<u>1,403,078</u>	<u>13</u>	<u>3,295,417</u>	<u>10</u>	<u>3,521,577</u>	<u>12</u>

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF INCOME TAX								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	\$ 167,271	1	\$ (85,659)	(1)	\$ 253,793	1	\$ (160,091)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	1,431	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	(45,139)	-	(24,715)	-	(35,927)	-	(13,152)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	8,814	-	4,943	-	6,902	-	5,056	-
Other comprehensive income (loss) for the period, net of income tax	130,946	1	(105,431)	(1)	224,768	1	(166,756)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,763,474</u>	<u>14</u>	<u>\$ 1,297,647</u>	<u>12</u>	<u>\$ 3,520,185</u>	<u>11</u>	<u>\$ 3,354,821</u>	<u>11</u>
NET PROFIT ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,631,173	13	\$ 1,403,078	13	\$ 3,292,266	10	\$ 3,521,577	12
Non-controlling interests	1,355	-	-	-	3,151	-	-	-
	<u>\$ 1,632,528</u>	<u>13</u>	<u>\$ 1,403,078</u>	<u>13</u>	<u>\$ 3,295,417</u>	<u>10</u>	<u>\$ 3,521,577</u>	<u>12</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,763,189	14	\$ 1,297,647	12	\$ 3,518,452	11	\$ 3,354,821	11
Non-controlling interests	285	-	-	-	1,733	-	-	-
	<u>\$ 1,763,474</u>	<u>14</u>	<u>\$ 1,297,647</u>	<u>12</u>	<u>\$ 3,520,185</u>	<u>11</u>	<u>\$ 3,354,821</u>	<u>11</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 23)								
Basic	<u>\$8.28</u>		<u>\$7.12</u>		<u>\$16.71</u>		<u>\$17.87</u>	
Diluted	<u>\$8.24</u>		<u>\$7.09</u>		<u>\$16.52</u>		<u>\$17.65</u>	

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

(With Deloitte & Touche auditors' review report dated November 11, 2019)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Equity Attributable to the Owners of the Corporation					Exchange Differences on Translating Foreign Operations	Other Equity		Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings		Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total		
			Legal Reserve	Special Reserve						
BALANCE AT JANUARY 1, 2018	\$ 1,970,740	\$ 6,660,502	\$ 2,842,806	\$ 25,965	\$ 14,984,938	\$ (67,147)	\$ (316,201)	\$ 26,101,603	\$ -	\$ 26,101,603
Appropriation of the 2017 earnings										
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-	-
Reversal of special reserve	-	-	-	(25,965)	25,965	-	-	-	-	-
Cash dividends - NT\$17 per share	-	-	-	-	(3,350,258)	-	-	(3,350,258)	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,329	-	-	-	-	-	14,329	-	14,329
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(28,216)	-	28,216	-	-	-
Net profit for the nine months ended September 30, 2018	-	-	-	-	3,521,577	-	-	3,521,577	-	3,521,577
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	1,431	(8,096)	(160,091)	(166,756)	-	(166,756)
BALANCE AT SEPTEMBER 30, 2018	\$ 1,970,740	\$ 6,674,831	\$ 3,418,903	\$ -	\$ 14,579,340	\$ (75,243)	\$ (448,076)	\$ 26,120,495	\$ -	\$ 26,120,495
BALANCE AT JANUARY 1, 2019	\$ 1,970,740	\$ 6,674,650	\$ 3,418,903	\$ -	\$ 15,228,504	\$ (67,908)	\$ (313,019)	\$ 26,911,870	\$ -	\$ 26,911,870
Appropriation of the 2018 earnings										
Legal reserve	-	-	431,812	-	(431,812)	-	-	-	-	-
Special reserve	-	-	-	380,927	(380,927)	-	-	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	27,298	27,298
Changes in percentage of ownership interests in subsidiaries	-	1,621	-	-	-	-	-	1,621	(1,621)	-
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	19,280	-	-	-	-	-	19,280	-	19,280
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(7,348)	-	7,348	-	-	-
Net profit for the nine months ended September 30, 2019	-	-	-	-	3,292,266	-	-	3,292,266	3,151	3,295,417
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	(27,607)	253,793	226,186	(1,418)	224,768
BALANCE AT SEPTEMBER 30, 2019	\$ 1,970,740	\$ 6,695,551	\$ 3,850,715	\$ 380,927	\$ 15,138,721	\$ (95,515)	\$ (51,878)	\$ 27,889,261	\$ 27,410	\$ 27,916,671

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

(With Deloitte & Touche auditors' review report dated November 11, 2019)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,911,999	\$ 4,105,625
Adjustments for:		
Depreciation	210,627	160,322
Amortization	118,770	148,025
Expected credit losses reversed on trade receivables	(58,686)	(40,399)
Financial costs	1,768	3,749
Interest income	(40,211)	(37,277)
Dividend income	(41,922)	(32,470)
Share of loss of associates	325,600	24,261
Gain on disposal of property, plant and equipment	(1,667)	(1,113)
Loss (gain) on disposal of associates	2,960	(389)
(Reversal) write-down of inventories	(26,244)	29,076
Net gain on foreign currency exchange	(13,962)	(87,400)
Recognition of refund liabilities	257,030	88,043
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	(81,864)	(22,460)
Notes and accounts receivable	(1,231,918)	173,365
Other receivables	14,917	(87,572)
Inventories	(2,003,394)	(392,944)
Prepayments	(21,220)	(110,452)
Other current assets	8,219	(9,475)
Contract liabilities	88,010	40,605
Notes and accounts payable	(1,541,867)	1,025,640
Other payables	(251,212)	3,768
Deferred revenue	(8,079)	(8,554)
Other current liabilities	(106,474)	(240,750)
Net defined benefit liabilities	<u>506</u>	<u>3,190</u>
Net cash (used in) generated from operations	(488,314)	4,734,414
Interest paid	(1,768)	(3,749)
Income tax paid	<u>(728,453)</u>	<u>(1,265,759)</u>
Net cash (used in) generated from operating activities	<u>(1,218,535)</u>	<u>3,464,906</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(33,160)	(102,854)
Proceeds from sale of financial assets at fair value through other comprehensive income	8,674	3,004
Proceeds from sale of financial assets at amortized cost	10,569	13,612
Purchase of financial assets at fair value through profit or loss	(323,991)	(2,006,058)

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
Proceeds from sale of financial assets at fair value through profit or loss	\$ 3,252	\$ 1,501,274
Acquisition of associates	(272,371)	(177,440)
Net cash inflow on disposal of associates	-	396
Payment for property, plant and equipment	(269,868)	(239,250)
Proceeds from disposal of property, plant and equipment	1,771	1,328
Decrease (increase) in refundable deposits	2,099	(987)
Payment for intangible assets	(193,510)	(77,817)
Interest received	41,284	37,623
Dividends received	41,922	32,470
Proceeds from capital reduction of financial assets at fair value through profit or loss	<u>-</u>	<u>69,855</u>
Net cash used in investing activities	<u>(983,329)</u>	<u>(944,844)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	(10)	(130)
Repayment of the principal portion of lease liabilities	(7,721)	-
Dividends paid	(2,561,962)	(3,350,258)
Increase in non-controlling interests	<u>27,298</u>	<u>-</u>
Net cash used in financing activities	<u>(2,542,395)</u>	<u>(3,350,388)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>24,396</u>	<u>87,596</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,719,863)	(742,730)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,176,396</u>	<u>14,142,389</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 9,456,533</u>	<u>\$ 13,399,659</u>

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

(With Deloitte & Touche auditors' review report dated November 11, 2019)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

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

The consolidated financial statements of the Corporation and its subsidiaries, hereinafter collectively referred to as the “Group”, are presented in the Corporation’s functional currency, the New Taiwan dollar.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on November 11, 2019.

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

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

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

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

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

The Group as lessee

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

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The Group weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 2.6%. The difference between the lease liabilities recognized and operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 43,283
Less: Recognition exemption for short-term leases	(15,405)
Less: Recognition exemption for leases of low-value assets	<u>(14)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 27,864</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 26,667</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 26,667</u>

The Group as lessor

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

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 26,831	\$ 26,831
Guarantee deposits paid	<u>7,154</u>	<u>(164)</u>	<u>6,990</u>
Total effect on assets	<u>\$ 7,154</u>	<u>\$ 26,667</u>	<u>\$ 33,821</u>
Lease liabilities - current	\$ -	\$ 8,277	\$ 8,277
Lease liabilities - non-current	<u>-</u>	<u>18,390</u>	<u>18,390</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 26,667</u>	<u>\$ 26,667</u>

- b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

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

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

Basis of Consolidation

- a. The principles for the preparation of the consolidated financial report are consistent with the report for the year ended December 31, 2018.
- b. The detail information of subsidiaries which including the percentages of ownership and main businesses, please refer to Note 12, Tables 5 and 6.

Other Significant Accounting Policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2018. For the summary of other significant accounting policies, refer to the consolidated financial statements for the year ended December 31, 2018.

- a. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as 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 (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Group as 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 consolidated 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.

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 a lease term, 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. Lease liabilities are presented on a separate line in the consolidated 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.

2018

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.

1) The Group as lessor

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

2) The Group as lessee

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

b. Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

c. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and this is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of the Group's accounting policies, critical accounting judgments, estimates and assumptions in this report are consistent with the report for the year ended December 31, 2018.

6. CASH AND CASH EQUIVALENTS

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 110	\$ 109	\$ 112
Checking accounts and demand deposits	7,527,331	9,299,883	8,633,336
Cash equivalents			
Time deposits with original maturities of less than 3 months	<u>1,929,092</u>	<u>4,876,404</u>	<u>4,766,211</u>
	<u>\$ 9,456,533</u>	<u>\$ 14,176,396</u>	<u>\$ 13,399,659</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Non-derivative financial assets - current</u>			
Financial assets mandatorily classified as FVTPL			
Beneficiary certificates - open-end funds	\$ 2,831,408	\$ 2,619,258	\$ 1,676,945
Domestic listed shares	445,233	372,994	441,807
Convertible bonds	<u>182,042</u>	<u>85,288</u>	<u>-</u>
	<u>\$ 3,458,683</u>	<u>\$ 3,077,540</u>	<u>\$ 2,118,752</u>

(Continued)

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Non-derivative financial assets - non-current</u>			
Financial assets mandatorily classified as FVTPL			
Private equity funds	\$ 47,075	\$ 47,366	\$ 47,347
Domestic unlisted shares	296,729	281,900	255,041
Overseas unlisted shares	<u>105,449</u>	<u>98,523</u>	<u>92,032</u>
	<u>\$ 449,253</u>	<u>\$ 427,789</u>	<u>\$ 394,420</u> (Concluded)

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

Investments in Equity Instruments at FVTOCI

	September 30, 2019	December 31, 2018	September 30, 2018
Domestic investments - unlisted shares	\$ 198,445	\$ 132,871	\$ 161,628
Overseas investments - unlisted shares	<u>527,059</u>	<u>317,526</u>	<u>289,358</u>
	<u>\$ 725,504</u>	<u>\$ 450,397</u>	<u>\$ 450,986</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

In 2019 and 2018 the Group paid \$33,160 thousand and \$102,854 thousand to acquire common shares of domestic and foreign unlisted entities for medium- to long-term strategic purposes, respectively. The management designated these investments as at FVTOCI.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

	September 30, 2019	December 31, 2018	September 30, 2018
Certificates of deposit	\$ 20,383	\$ 56,997	\$ 56,922
Time deposits with original maturities of more than 3 months	<u>36,265</u>	<u>10,220</u>	<u>10,000</u>
	<u>\$ 56,648</u>	<u>\$ 67,217</u>	<u>\$ 66,922</u>

As of September 30, 2019, December 31, 2018, and September 30, 2018, the interest rates for time deposits with original maturities of more than 3 months were 1.75%, 0.13% and 0.13%, respectively.

Refer to Note 28 for information relating to investments in financial assets at amortized cost pledged as security.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Notes receivable</u>			
At amortized cost			
Gross carrying amount	\$ 10,566	\$ -	\$ -
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,566</u>	<u>\$ -</u>	<u>\$ -</u>
Notes receivable - non-operating	<u>\$ 10,566</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount - non-related parties	\$ 5,919,091	\$ 5,051,051	\$ 5,456,746
Gross carrying amount - related parties	<u>664,684</u>	<u>344,249</u>	<u>254,651</u>
	6,583,775	5,395,300	5,711,397
Less: Loss allowance	<u>(92,768)</u>	<u>(151,342)</u>	<u>(143,256)</u>
	<u>\$ 6,491,007</u>	<u>\$ 5,243,958</u>	<u>\$ 5,568,141</u>
<u>Other receivables</u>			
Income tax refund receivable	\$ 211,252	\$ 176,307	\$ 281,665
Factored accounts receivable	21,751	74,777	72,959
Others	<u>21,244</u>	<u>21,978</u>	<u>21,958</u>
	<u>\$ 254,247</u>	<u>\$ 273,062</u>	<u>\$ 376,582</u>

Trade Receivables

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

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

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

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

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

September 30, 2019

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Expected credit losses rate	0.27%	13.52%	34.64%	43.30%	59.91%	100.00%	
Gross carrying amount	\$ 5,299,337	\$ 584,381	\$ 16,488	\$ 11,281	\$ 13,985	\$ 4,185	\$ 5,929,657
Loss allowance (lifetime expected credit losses)	<u>(14,295)</u>	<u>(55,314)</u>	<u>(5,712)</u>	<u>(4,884)</u>	<u>(8,378)</u>	<u>(4,185)</u>	<u>(92,768)</u>
Amortized cost	<u>\$ 5,285,042</u>	<u>\$ 529,067</u>	<u>\$ 10,776</u>	<u>\$ 6,397</u>	<u>\$ 5,607</u>	<u>\$ -</u>	<u>\$ 5,836,889</u>

December 31, 2018

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Expected credit losses rate	1.57%	13.64%	19.39%	26.79%	61.45%	99.99%	
Gross carrying amount	\$ 4,592,145	\$ 413,222	\$ 4,813	\$ 6,474	\$ 13,879	\$ 20,518	\$ 5,051,051
Loss allowance (lifetime expected credit losses)	<u>(72,558)</u>	<u>(47,920)</u>	<u>(923)</u>	<u>(1,687)</u>	<u>(8,203)</u>	<u>(20,051)</u>	<u>(151,342)</u>
Amortized cost	<u>\$ 4,519,587</u>	<u>\$ 365,302</u>	<u>\$ 3,890</u>	<u>\$ 4,787</u>	<u>\$ 5,676</u>	<u>\$ 467</u>	<u>\$ 4,899,709</u>

September 30, 2018

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Expected credit losses rate	1.57%	13.64%	19.39%	26.79%	61.45%	99.99%	
Gross carrying amount	\$ 5,077,962	\$ 308,069	\$ 30,410	\$ 23,068	\$ 11,550	\$ 5,687	\$ 5,456,746
Loss allowance (lifetime expected credit losses)	<u>(81,285)</u>	<u>(37,645)</u>	<u>(5,916)</u>	<u>(6,068)</u>	<u>(6,785)</u>	<u>(5,557)</u>	<u>(143,256)</u>
Amortized cost	<u>\$ 4,996,677</u>	<u>\$ 270,424</u>	<u>\$ 24,494</u>	<u>\$ 17,000</u>	<u>\$ 4,765</u>	<u>\$ 130</u>	<u>\$ 5,313,490</u>

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

	For the Nine Months Ended September 30	
	2019	2018
Balance, beginning of period	\$ 151,342	\$ 185,393
Less: Reversal of loss allowance	(58,686)	(40,399)
Less: Amounts written off	-	(1,647)
Foreign exchange gains and losses	<u>112</u>	<u>(91)</u>
Balance, end of period	<u>\$ 92,768</u>	<u>\$ 143,256</u>

Factored trade receivables that have not yet settled at end of period were as follows:

(In Thousands of Dollars)

Factor	Factor Amount	Reclassified to Other Receivables	Advances Received - Unused	Prepayments	Annual Interest Rates on Advances Received (Used) (%)
For the nine months ended <u>September 30, 2019</u>					
HSBC Bank	US\$ 13,448	US\$ 701	\$ -	\$ -	-
For the nine months ended <u>September 30, 2018</u>					
HSBC Bank	US\$ 35,037	US\$ 2,390	-	-	-

The factor was HSBC Bank (Taiwan) Limited. This sale was without recourse while the Group shall pay only the necessary related charges.

11. INVENTORIES

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 3,987,489	\$ 4,264,410	\$ 4,289,187
Work-in-process	3,398,873	2,000,892	2,417,901
Semi-finished goods	2,040,936	1,273,952	813,977
Finished goods	176,400	37,467	34,019
Merchandise	<u>2,696</u>	<u>-</u>	<u>1,166</u>
	<u>\$ 9,606,394</u>	<u>\$ 7,576,721</u>	<u>\$ 7,556,250</u>

The cost of inventories recognized as cost of goods sold for the three months and nine months ended September 30, 2019 and 2018 were \$8,995,668 thousand, \$8,192,756 thousand, \$23,851,042 thousand and \$23,679,571 thousand, respectively.

The cost of goods sold for the three months and nine months ended September 30, 2019 and 2018 included reversals of inventory write-downs of \$42,336 thousand, write-downs of \$53,272 thousand, reversals of inventory write-downs of \$26,244 thousand and write-downs of \$29,076 thousand, respectively. The reversals of previous write-downs resulted from an increase in market selling prices.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

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

Investor	Investee	Principal Activities	Proportion of Ownership			Remark	
			September 30, 2019	December 31, 2018	September 30, 2018		
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	100.00	Remark 1	
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	100.00	Remark 1	
	Emtops Electronics Corp.	Investment	100.00	100.00	100.00	Remark 1	
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	100.00	100.00	100.00	Remark 1	
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	Remark 1	
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 1	
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1	
	Regis Investment (Samoa) Limited	Investment	100.00	100.00	100.00	Remark 1	
	Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	100.00	100.00	Remark 1
		Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 1
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	96.91	100.00	100.00	Remark 1 and Note 24	
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.	100.00	100.00	100.00	Remarks 1 and 4	
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	100.00	100.00	100.00	Remark 1	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	100.00	Remark 1	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100.00	100.00	100.00	Remark 1	
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	100.00	100.00	Remark 1	
	Cloud Solution Global Limited	Trade of electronic components	-	100.00	100.00	Remarks 1 and 2	
	Fast Choice Global Limited	Trade of electronic components	-	100.00	100.00	Remarks 1 and 2	
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100.00	100.00	100.00	Remark 1	
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment.	100.00	100.00	100.00	Remarks 1 and 5	
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100.00	-	-	Remarks 1 and 3	

Remark 1: The financial statements of the non-significant subsidiaries have not been reviewed.

Remark 2: The company ended its operations in August 2019 and completed the liquidation procedures.

Remark 3: In 2019, the Corporation invested Phison Technology Inc. through sub-company for the operational needs.

Remark 4: In 2018, the Corporation invested Hefei Yichao Electronics Technology Ltd through sub-company for the operational needs.

Remark 5: In 2018, the Corporation invested Hefei Ruhan Electronics Technology Limited through sub-company for the operational needs.

- b. Subsidiaries excluded from the consolidated financial statements: None.
- c. During the preparation of the consolidated financial statements, the substantial transactions between the group entities were fully eliminated.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	September 30, 2019	December 31, 2018	September 30, 2018
<u>Unlisted shares</u>			
Kingston Solutions Inc.	\$ 912,954	\$ 1,257,971	\$ 1,636,226
Epostar Electronics (BVI) Corporation	-	17,596	21,234
Microtops Design Corporation (“Microtops”)	24,081	22,696	23,210
PMS Technology Corporation	18,123	17,929	17,897
Hefei Xinpeng Technology Co., Ltd.	258,372	177,857	177,659
HOSIN Global Electronics Co., Ltd. (SZ)	<u>234,763</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,448,293</u>	<u>\$ 1,494,049</u>	<u>\$ 1,876,226</u>

Refer to Table 5 and Table 6 for the nature of activities, principal place of business and country of incorporation of the associates.

Flexmedia Electronics Corporation approved the liquidation in the shareholders’ meeting held on February 25, 2016, and completed liquidation procedures on August 29, 2018.

The calculation of the investments accounted for using the equity method and the Group’s share of profit or loss and other comprehensive income of those investments for the nine months ended September 30, 2019 and 2018 were based on financial statements that have not been reviewed.

14. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2019	December 31, 2018	September 30, 2018
Assets used by the Group			
Land	\$ 813,738	\$ 813,738	\$ 813,738
Land improvements	3,338	4,377	5,139
Buildings	1,750,868	1,755,552	1,718,282
Testing equipment	498,982	371,082	335,939
Office equipment	20,605	22,356	23,567
Other equipment	<u>49,652</u>	<u>23,126</u>	<u>25,308</u>
	<u>\$ 3,137,183</u>	<u>\$ 2,990,231</u>	<u>\$ 2,921,973</u>

Except for the depreciation recognized and transfer from prepayments to equipment, the Group had no significant additions, disposals, and impairment of property, plant and equipment for the nine months ended September 30, 2019 and 2018.

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

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

15. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

		September 30, 2019
<u>Carrying amounts</u>		
Buildings		\$ 33,937
Transportation equipment		<u>939</u>
		<u>\$ 34,876</u>
	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Depreciation charge for right-of-use assets		
Buildings	\$ 2,822	\$ 7,574
Transportation equipment	<u>156</u>	<u>470</u>
	<u>\$ 2,978</u>	<u>\$ 8,044</u>

Except for the depreciation recognized on right-of-use assets, the Group had no significant additions, disposals, and impairment of right-of-use assets for the nine months ended September 30, 2019.

b. Lease liabilities - 2019

		September 30, 2019
<u>Carrying amounts</u>		
Current		<u>\$ 11,825</u>
Non-current		<u>\$ 23,348</u>

Range of discount rate for lease liabilities was as follows:

	September 30, 2019
Buildings	2.6%-2.85%
Transportation equipment	2.6%

c. Material lease-in activities and terms

The Group leases buildings for the use of plants and offices with lease terms from 2017 to 2024. The lease contract for buildings specifies that lease payments will be adjusted from the third year on the basis of changes in the consumer price index. The Group has no options to purchase the equipment for a nominal amount at the end of the lease terms.

d. Other lease information

2019

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Expenses relating to short-term leases	<u>\$ 5,301</u>	<u>\$ 12,507</u>
Expenses relating to low-value asset leases	<u>\$ 543</u>	<u>\$ 582</u>
Total cash outflow for leases	<u>\$ (8,722)</u>	<u>\$ (20,810)</u>

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

2018

The Group as lessee

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

The future minimum lease payments of operating lease commitments are as follows:

	December 31, 2018	September 30, 2018
Not later than 1 year	\$ 20,260	\$ 20,877
Later than 1 year and not later than 5 years	<u>23,023</u>	<u>26,517</u>
	<u>\$ 43,283</u>	<u>\$ 47,394</u>

16. INTANGIBLE ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Computer software	\$ 123,367	\$ 113,485	\$ 111,463
Technology license fees	<u>103,909</u>	<u>39,065</u>	<u>36,360</u>
	<u>\$ 227,276</u>	<u>\$ 152,550</u>	<u>\$ 147,823</u>

Except for the above amortization recognized, the Group had no significant additions, disposals, and impairment of intangible assets for the nine months ended September 30, 2019 and 2018.

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

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

17. OTHER PAYABLES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Other payables</u>			
Salaries and bonuses payable	\$ 2,257,050	\$ 2,452,835	\$ 2,399,109
Others	<u>1,210,534</u>	<u>1,264,063</u>	<u>1,339,517</u>
	<u>\$ 3,467,584</u>	<u>\$ 3,716,898</u>	<u>\$ 3,738,626</u>

18. OTHER CURRENT LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
Other payables			
Refund liabilities	\$ 345,883	\$ 185,919	\$ 209,108
Payables for purchases of equipment	75,189	30,832	30,952
Receipts under custody	40,297	23,927	36,364
Others	<u>72,606</u>	<u>98,384</u>	<u>76,989</u>
	<u>\$ 533,975</u>	<u>\$ 339,062</u>	<u>\$ 353,413</u>

19. RETIREMENT BENEFIT PLANS

Employee benefits expenses for the three months and nine months ended September 30, 2019 and 2018 in respect of the Group's defined benefit retirement plans were \$676 thousand, \$1,536 thousand, \$2,028 thousand and \$4,607 thousand, respectively, and were calculated using the actuarially determined pension cost discount rate at the end of the prior financial years ended December 31, 2018 and 2017.

20. EQUITY

a. Share capital

Common shares

	September 30, 2019	December 31, 2018	September 30, 2018
Number of shares authorized (in thousands)	<u>280,000</u>	<u>230,000</u>	<u>230,000</u>
Shares authorized	<u>\$ 2,800,000</u>	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,074</u>	<u>197,074</u>
Shares issued	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>

On November 13, 2017, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on December 5, 2017 after the Financial Supervisory Commission (FSC) approved this plan as shown in the FSC's issued document No. 1060047052. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2017, shares can be issued as a whole or in parts depending on the Corporation's actual needs within the year starting from the date the issuer received the notification of approval from the authorities. Due to high issuance costs should the employee share options be issued within the issuance period, the employee share options were not issued and are not to be issued after December 4, 2018 in accordance with the regulations.

On November 13, 2018, an employee share option plan was approved by the Corporation's board of directors which was declared effective on November 28, 2018, after the Financial Supervisory Commission (FSC) approved this plan as shown in the FSC's issued document No. 1070344165. In accordance with Article 55, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2018, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within the year starting from the date the issuer received the notification of approval from the authorities.

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

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

b. Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)			
Issuance of common shares	\$ 6,237,434	\$ 6,237,434	\$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758	148,758

(Continued)

	September 30, 2019	December 31, 2018	September 30, 2018
<u>May only be used to offset a deficit</u>			
Expired share options	\$ 227	\$ 227	\$ 227
Changes in percentage of ownership interests in subsidiaries (2)	1,621	-	-
Share of changes in capital surplus of associates or joint ventures	<u>307,511</u>	<u>288,231</u>	<u>288,412</u>
	<u>\$ 6,695,551</u>	<u>\$ 6,674,650</u>	<u>\$ 6,674,831</u> (Concluded)

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).
- 2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions or from changes in capital surplus of subsidiaries accounted for using the equity method.

c. Retained earnings and dividend policy

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

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

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

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

The appropriations of earnings for 2018 and 2017 were approved in the shareholders' meeting on June 12, 2019 and June 8, 2018, respectively, and were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2018</u>	<u>For Year 2017</u>	<u>For Year 2018</u>	<u>For Year 2017</u>
Legal reserve	\$ 431,812	\$ 576,097		
Special reserve (reversal)	380,927	(25,965)		
Cash dividends	2,561,962	3,350,258	\$13	\$17

21. INCOME TAXES

- a. Income tax recognized in profit or loss:

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

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current tax				
In respect of the current period	\$ 270,499	\$ 281,340	\$ 560,803	\$ 571,651
Adjustments for prior periods	-	(163,846)	-	(163,721)
Income tax expense of unappropriated earnings	<u>-</u>	<u>-</u>	<u>38,463</u>	<u>185,370</u>
	270,499	117,494	599,266	593,300
Deferred tax				
In respect of the current period	(7,534)	(41,657)	17,316	40,685
Effect of change in tax rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,937)</u>
Income tax expense recognized in profit or loss	<u>\$ 262,965</u>	<u>\$ 75,837</u>	<u>\$ 616,582</u>	<u>\$ 584,048</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings had been reduced from 10% to 5%.

In July 2019, the President of the ROC approved the announcement of the amendments to the Statute of Industrial Innovation, which stipulated that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in certain assets or technologies above a specific amount are allowed as deduction when computing the income tax on unappropriated earnings. However, the related implementation rules are yet to be issued by the Ministry of Finance; thus, the Corporation could not estimate the effect on current income tax.

b. Income tax benefit recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Deferred income tax</u>				
Effect of change in tax rate	\$ -	\$ -	\$ -	\$ 3,857
Recognized in other comprehensive income				
Translation of foreign operations	<u>8,814</u>	<u>4,943</u>	<u>6,902</u>	<u>2,630</u>
Total income tax recognized in other comprehensive income	<u>\$ 8,814</u>	<u>\$ 4,943</u>	<u>\$ 6,902</u>	<u>\$ 6,487</u>

c. Income tax assessments

<u>Associate</u>	<u>For the Year Ended</u>
Phison Electronics Corp.	2016
Lian Xu Dong Investment Corporation	2017
Emtops Electronics Corp.	2017
Ostek Corporation	2017
Phisontech Electronics Taiwan Corp.	2017
Memoryexchange Corporation	2017

22. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

The following items were included in the net profit:

a. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fair value changes of financial assets and financial liabilities				
Financial assets mandatorily classified as FVTPL	\$ 42,572	\$ (37,480)	\$ 81,864	\$ 22,460
Net foreign exchange (losses) gains	(16,249)	24,689	52,560	131,335
Others	<u>(2,825)</u>	<u>1,188</u>	<u>(1,441)</u>	<u>1,573</u>
	<u>\$ 23,498</u>	<u>\$ (11,603)</u>	<u>\$ 132,983</u>	<u>\$ 155,368</u>

b. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest income				
Bank deposits	\$ 9,507	\$ 9,503	\$ 40,185	\$ 34,155
Others	<u>-</u>	<u>3,122</u>	<u>26</u>	<u>3,122</u>
	9,507	12,625	40,211	37,277
Rental income	348	348	1,044	1,228
Dividend income	29,719	29,062	41,922	32,470
Others	<u>96,887</u>	<u>19,484</u>	<u>156,344</u>	<u>58,239</u>
	<u>\$ 136,461</u>	<u>\$ 61,519</u>	<u>\$ 239,521</u>	<u>\$ 129,214</u>

c. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest on bank loans	\$ 321	\$ 256	\$ 1,085	\$ 3,749
Interest on lease liabilities	<u>249</u>	<u>-</u>	<u>683</u>	<u>-</u>
	<u>\$ 570</u>	<u>\$ 256</u>	<u>\$ 1,768</u>	<u>\$ 3,749</u>

d. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Property, plant and equipment	\$ 73,453	\$ 58,124	\$ 202,583	\$ 160,322
Right-of-use assets	2,978	-	8,044	-
Intangible assets	<u>35,733</u>	<u>45,965</u>	<u>118,770</u>	<u>148,025</u>
	<u>\$ 112,164</u>	<u>\$ 104,089</u>	<u>\$ 329,397</u>	<u>\$ 308,347</u>
An analysis of depreciation by function				
Operating costs	\$ 14,371	\$ 11,293	\$ 39,202	\$ 34,466
Operating expenses	<u>62,060</u>	<u>46,831</u>	<u>171,425</u>	<u>125,856</u>
	<u>\$ 76,431</u>	<u>\$ 58,124</u>	<u>\$ 210,627</u>	<u>\$ 160,322</u>
An analysis of amortization by function				
General and administrative expenses	\$ 1,952	\$ 2,131	\$ 5,829	\$ 5,912
Research and development expenses	<u>33,781</u>	<u>43,834</u>	<u>112,941</u>	<u>142,113</u>
	<u>\$ 35,733</u>	<u>\$ 45,965</u>	<u>\$ 118,770</u>	<u>\$ 148,025</u>

e. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 1,144,701	\$ 852,063	\$ 2,650,656	\$ 2,139,201
Post-employment benefits				
Defined contribution plan	24,517	20,810	70,138	59,058
Defined benefit plan	<u>676</u>	<u>1,536</u>	<u>2,028</u>	<u>4,607</u>
	<u>25,193</u>	<u>22,346</u>	<u>72,166</u>	<u>63,665</u>
Other employee benefits				
Employee welfare	16,672	14,761	42,365	41,624
Food stipend	<u>12,553</u>	<u>10,448</u>	<u>35,615</u>	<u>30,296</u>
	<u>29,225</u>	<u>25,209</u>	<u>77,980</u>	<u>71,920</u>
Termination benefits	<u>-</u>	<u>55</u>	<u>-</u>	<u>55</u>
	<u>\$ 1,199,119</u>	<u>\$ 899,673</u>	<u>\$ 2,800,802</u>	<u>\$ 2,274,841</u>
Employee benefits				
Recognized in operating costs	\$ 61,905	\$ 52,031	\$ 173,776	\$ 154,779
Recognized in operating expenses	<u>1,137,214</u>	<u>847,642</u>	<u>2,627,026</u>	<u>2,120,062</u>
	<u>\$ 1,199,119</u>	<u>\$ 899,673</u>	<u>\$ 2,800,802</u>	<u>\$ 2,274,841</u>

f. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months and nine months ended September 30, 2019 and 2018, the employees' compensation and remuneration of directors and supervisors were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Employees' compensation	<u>\$ 217,515</u>	<u>\$ 167,887</u>	<u>\$ 445,069</u>	<u>\$ 436,701</u>
Remuneration of directors and supervisors	<u>\$ 12,245</u>	<u>\$ 16,789</u>	<u>\$ 35,000</u>	<u>\$ 43,670</u>

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

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, that were approved by the Corporation's board of directors on March 21, 2019 and March 16, 2018, respectively, are as shown below:

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
	Foreign exchange gains	\$ 76,937	\$ 105,159	\$ 218,226
Foreign exchange losses	<u>(93,186)</u>	<u>(80,470)</u>	<u>(165,666)</u>	<u>(386,346)</u>
Net (losses) gains	<u>\$ (16,249)</u>	<u>\$ 24,689</u>	<u>\$ 52,560</u>	<u>\$ 131,335</u>

23. EARNINGS PER SHARE

	Unit: NT\$ Per Share			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Basic earnings per share	<u>\$ 8.28</u>	<u>\$ 7.12</u>	<u>\$ 16.71</u>	<u>\$ 17.87</u>
Diluted earnings per share	<u>\$ 8.24</u>	<u>\$ 7.09</u>	<u>\$ 16.52</u>	<u>\$ 17.65</u>

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

Net Profit

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Earnings used in the computation of basic earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 1,631,173</u>	<u>\$ 1,403,078</u>	<u>\$ 3,292,266</u>	<u>\$ 3,521,577</u>
Earnings used in the computation of diluted earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 1,631,173</u>	<u>\$ 1,403,078</u>	<u>\$ 3,292,266</u>	<u>\$ 3,521,577</u>

Shares

	(In Thousands of Shares)			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074	197,074	197,074
Effect of potentially dilutive common shares:				
Employees' compensation	<u>787</u>	<u>691</u>	<u>2,222</u>	<u>2,406</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>197,861</u>	<u>197,765</u>	<u>199,296</u>	<u>199,480</u>

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

24. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In March 2019, the Group subscribed for additional new shares of Hefei Core Storage Electronic Limited at a percentage different from its existing ownership percentage, resulting in a reduction in its ownership percentage from 100% to 96.91%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	March 2019
Cash consideration received	\$ 27,250
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>(25,629)</u>
Differences recognized from equity transactions	<u>\$ 1,621</u>
<u>Line items adjusted for equity transactions</u>	
Capital surplus - changes in percentage of ownership interests in subsidiaries	<u>\$ 1,621</u>

25. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings and other equities).

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

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

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

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

1) Fair value hierarchy

September 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 445,233	\$ -	\$ -	\$ 445,233
Domestic unlisted shares	-	-	296,729	296,729
Overseas unlisted shares	-	-	105,449	105,449
Domestic private equity funds	-	-	47,075	47,075
Beneficiary certificates - open-end funds	2,831,408	-	-	2,831,408
Convertible bonds	-	-	182,042	182,042
	<u>\$ 3,276,641</u>	<u>\$ -</u>	<u>\$ 631,295</u>	<u>\$ 3,907,936</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 198,445	\$ 198,445
Overseas unlisted shares	-	-	527,059	527,059
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 725,504</u>	<u>\$ 725,504</u>

December 31, 2018

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

September 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 441,807	\$ -	\$ -	\$ 441,807
Domestic unlisted shares	-	-	255,041	255,041
Overseas unlisted shares	-	-	92,032	92,032
Domestic private equity funds	-	-	47,347	47,347
Beneficiary certificates - open-end funds	<u>1,676,945</u>	<u>-</u>	<u>-</u>	<u>1,676,945</u>
	<u>\$ 2,118,752</u>	<u>\$ -</u>	<u>\$ 394,420</u>	<u>\$ 2,513,172</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 161,628	\$ 161,628
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>289,358</u>	<u>289,358</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450,986</u>	<u>\$ 450,986</u>

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2019 and 2018.

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

For the nine months ended September 30, 2019

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2019	\$ 47,366	\$ 85,288	\$ 380,423	\$ 450,397	\$ 963,474
Recognized in profit or loss					
Other gains and losses	(291)	4,375	(5,522)	-	(1,438)
Recognized in other comprehensive income					
Unrealized gain on financial assets at FVTOCI	-	-	-	253,793	253,793
Purchases	-	92,379	27,277	33,160	152,816
Sales	-	-	-	(8,674)	(8,674)
Effects of foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,172)</u>	<u>(3,172)</u>
Balance at September 30, 2019	<u>\$ 47,075</u>	<u>\$ 182,042</u>	<u>\$ 402,178</u>	<u>\$ 725,504</u>	<u>\$ 1,356,799</u>

For the nine months ended September 30, 2018

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2018 (IAS 39)	\$ -	\$ 53,722	\$ 434,763	\$ -	\$ 488,485
Transfers into Level 3 (Application of IFRS 9)	47,032	-	302,656	511,227	860,915
Recognized in profit or loss					
Other gains (losses)	315	(4,047)	101,071	-	97,339
Recognized in other comprehensive income					
Unrealized loss on financial assets at FVTOCI	-	-	-	(160,091)	(160,091)
Purchases	-	-	13,201	102,854	116,055
Sales	-	(49,675)	-	(3,004)	(52,679)
Capital reduction and refund of shares	-	-	(69,855)	-	(69,855)
Transfers out of Level 3	-	-	(434,763)	-	(434,763)
Balance at September 30, 2018	<u>\$ 47,347</u>	<u>\$ -</u>	<u>\$ 347,073</u>	<u>\$ 450,986</u>	<u>\$ 845,406</u>

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

- a) The fair values of convertible bonds are determined using the Binary Tree Evaluation Model and option pricing models where the significant unobservable input is historical volatility. As of September 30, 2019 and December 31, 2018, the historical volatilities used were 61.49% and 58.61%, respectively.
- b) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference of the unlisted equity securities and analogous subjects into consideration, the value of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease of the discount for the lack of marketability used in isolation would result in an increase in fair value.

	September 30	
	2019	2018
Discount for lack of marketability	15%	15%

- c) 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.

	September 30, 2018
Discount for non-controlling interest	15.0%
Discount for lack of marketability	15.0%
Sustainable revenue growth rates	2.0%
WACC	14.3%

As of September 30, 2019, no fair values of unlisted equity securities - foreign were determined using the income approach.

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

	September 30	
	2019	2018
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Financial assets at FVTPL			
Mandatorily classified as FVTPL	\$ 3,907,936	\$ 3,505,329	\$ 2,513,172
Financial assets at amortized cost (Note 1)	16,269,001	19,760,633	19,411,304
Financial assets at FVTOCI			
Equity instruments	725,504	450,397	450,986
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 2)	6,720,496	8,522,445	8,389,024

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, notes receivable, accounts receivable and other receivables.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise notes payable, trade payables, and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables, borrowings and lease liabilities. The Group's financial management department provides services to the business unit and coordinates access to domestic and international financial markets. The risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are referred in Note 30.

Sensitivity analysis

The Group was mainly exposed to the US dollar.

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

	Impact of USD	
	For the Nine Months Ended	
	September 30	
	2019	2018
Profit or loss	\$ 419,179	\$ 351,536

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at floating interest rates.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Fair value interest rate risk			
Financial assets	\$ 1,985,740	\$ 4,943,621	\$ 4,833,133
Financial liabilities	35,173	-	-
Cash flow interest rate risk			
Financial assets	7,527,331	9,299,883	8,633,336

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2019 and 2018 would increase by \$565 thousand and \$648 thousand, respectively.

c) Other price risk

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

If equity prices had been 1% higher/lower, pre-tax profit for the nine months ended September 30, 2019 and 2018 would have increased/decreased by \$39,079 thousand and \$25,132 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the nine months ended September 30, 2019 and 2018 would have increased/decreased by \$7,255 thousand and \$4,510 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

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

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

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group had available unutilized short-term bank loan facilities of \$7,958,200 thousand, \$7,922,200 thousand and \$7,677,000 thousand, respectively.

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

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

	September 30, 2019				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 2,601,138	\$ 2,077,767	\$ 2,459,608	\$ -	\$ -
Lease liabilities	<u>975</u>	<u>1,957</u>	<u>8,893</u>	<u>23,348</u>	<u>-</u>
	<u>\$ 2,602,113</u>	<u>\$ 2,079,724</u>	<u>\$ 2,468,501</u>	<u>\$ 23,348</u>	<u>\$ -</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	<u>\$ 11,825</u>	<u>\$ 23,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2018				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	<u>\$ 3,848,521</u>	<u>\$ 2,902,468</u>	<u>\$ 2,295,310</u>	<u>\$ -</u>	<u>\$ -</u>

	September 30, 2018				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	<u>\$ 3,561,784</u>	<u>\$ 2,977,040</u>	<u>\$ 2,268,695</u>	<u>\$ -</u>	<u>\$ -</u>

e. Information on transfers of financial assets

Refer to Note 10 for more information relating to the Group's factored trade receivables.

27. RELATED PARTY TRANSACTIONS

Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationships

<u>Related Party</u>	<u>Relationship</u>
Toshiba International Procurement Hong Kong, Ltd.	Other related parties
Toshiba Memory America, Inc.	Other related parties (Note 1)
Toshiba Singapore Pte. Ltd.	Other related parties
Dynabook ANZ Pty. Limited	Other related parties (Note 2)
Toshiba Memory Corporation	Other related parties (Note 3)
Toshiba Memory Singapore Pte. Ltd.	Other related parties (Note 4)
Toshiba Memory Taiwan Corporation	Other related parties (Note 5)
Toshiba Electronic Components Taiwan Corporation	Other related parties
Orient Semiconductor Electronics Ltd.	Other related parties
Dawning Leading Technology Inc.	Other related parties (Note 6)
Apacer Technology Inc.	Other related parties
Kingston Solutions Inc.	Associates
PMS Technology Corporation	Associates
Microtops Design Corporation	Associates
Epostar Electronics Corporation	Associates
Shenzhen EpoStar Electronics Limited Co.	Associates
HOSIN Global Electronics Co., Ltd. (HK)	Associates
Hefei DATANG Storage Technology Co., Ltd.	Associates
Wang Chih Ling	Board of subsidiary Hefei Core Storage Electronic Limited
Lin Wai	Board of subsidiary Hefei Core Storage Electronic Limited

Note 1: Toshiba Memory America, Inc. was renamed as Kioxia America, Inc. on October 1, 2019.

Note 2: Toshiba Client Solutions ANZ Pty Limited was renamed as Dynabook ANZ Pty. Limited on April 1, 2019.

Note 3: Toshiba Memory Corporation was renamed as Kioxia Corporation on October 1, 2019.

Note 4: Toshiba Memory Singapore Pte. Ltd. was renamed as Kioxia Singapore Pte. Ltd. on October 1, 2019.

Note 5: Toshiba Memory Taiwan Corporation was renamed as Kioxia Taiwan Corporation on October 1, 2019.

Note 6: The dissolution of Dawning Leading Technology Inc. was approved in the shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; thus, starting from November 1, 2018, Dawning Leading Technology Inc. was no longer a related party of the Group.

b. Operating revenue

Related Party Categories	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Associates	\$ 406,338	\$ 13,399	\$ 844,094	\$ 22,357
Other related parties	<u>522,599</u>	<u>514,450</u>	<u>1,571,382</u>	<u>1,358,508</u>
	<u>\$ 928,937</u>	<u>\$ 527,849</u>	<u>\$ 2,415,476</u>	<u>\$ 1,380,865</u>

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

c. Operating costs

1) Purchase of goods

Related Party Category	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Associates	\$ 303,554	\$ 59,632	\$ 716,672	\$ 542,189
Other related parties				
Toshiba Memory Taiwan Corporation	1,235,997	3,153,968	9,147,639	10,393,436
Toshiba Memory America, Inc.	226,070	1,007,761	937,318	3,549,561
Toshiba Electronics Components Taiwan Corporation	-	-	-	168
Others	<u>-</u>	<u>3,466</u>	<u>2,293</u>	<u>8,248</u>
	<u>\$ 1,765,621</u>	<u>\$ 4,224,827</u>	<u>\$ 10,803,922</u>	<u>\$ 14,493,602</u>

2) Processing costs

Related Party Category	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Associates	\$ 341	\$ -	\$ 432	\$ 154
Other related parties	<u>567,788</u>	<u>528,225</u>	<u>1,834,300</u>	<u>1,231,341</u>
	<u>\$ 568,129</u>	<u>\$ 528,225</u>	<u>\$ 1,834,732</u>	<u>\$ 1,231,495</u>

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

d. Receivables from related parties

Related Party Category	September 30, 2019	December 31, 2018	September 30, 2018
Associates	\$ 293,128	\$ 81,354	\$ 13,644
Other related parties	<u>371,556</u>	<u>262,895</u>	<u>241,007</u>
	<u>\$ 664,684</u>	<u>\$ 344,249</u>	<u>\$ 254,651</u>

The outstanding trade receivables from related parties are unsecured.

e. Payables to related parties

Related Party Category	September 30, 2019	December 31, 2018	September 30, 2018
Associates	\$ 38,456	\$ 134,362	\$ 41,414
Other related parties			
Toshiba Memory Taiwan Corporation	644,062	2,077,768	1,653,508
Toshiba Memory America, Inc.	155,034	300,170	321,179
Others	<u>212,411</u>	<u>343,844</u>	<u>401,931</u>
	<u>\$ 1,049,963</u>	<u>\$ 2,856,144</u>	<u>\$ 2,418,032</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 77,587	\$ 67,308	\$ 170,943	\$ 167,126
Post-employment benefits	689	447	1,897	1,267
Other employee benefits	<u>1,357</u>	<u>1,262</u>	<u>3,274</u>	<u>3,599</u>
	<u>\$ 79,633</u>	<u>\$ 69,017</u>	<u>\$ 176,114</u>	<u>\$ 171,992</u>

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

g. Issuance of ordinary shares for cash by subsidiary

On February 1, 2019, it was resolved in the shareholders' meeting of Hefei Core Storage Electronic Limited to issue ordinary shares which amounted to \$27,250 thousand (CNY5,950 thousand). The board of directors of Hefei Core Storage Electronic Limited, Wang Chih Ling and Lin Wai, each funded \$8,175 thousand and their shareholding percentages were both 0.93%.

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	September 30, 2019	December 31, 2018	September 30, 2018
Refundable deposits for customs duties - certificates of deposit (financial assets at amortized cost - current)	<u>\$ 20,383</u>	<u>\$ 56,997</u>	<u>\$ 56,922</u>

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of September 30, 2019, December 31, 2018 and September 30, 2018 were as follows:

Significant Commitments

	September 30, 2019	December 31, 2018	September 30, 2018
Unused letters of credit	\$ <u>1,660,000</u>	\$ <u>1,670,000</u>	\$ <u>1,500,000</u>

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' monetary financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

In Thousands of New Taiwan Dollars and Foreign Currencies

	September 30, 2019		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 278,223	31.0400	\$ 8,636,038
USD (USD:CNY)	10,992	7.0729	341,199
CNY (CNY:NTD)	33,867	4.3500	147,322
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	64,140	31.0400	1,990,915
	December 31, 2018		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 240,853	30.7150	\$ 7,397,797
USD (USD:CNY)	4,805	6.8632	147,582
CNY (CNY:NTD)	33,224	4.4720	148,577
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	106,744	30.7150	3,278,640

	September 30, 2018		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 288,616	30.5250	\$ 8,810,000
USD (USD:CNY)	7,280	6.8792	222,215
CNY (CNY:NTD)	33,007	4.4360	146,419
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	103,957	30.5250	3,173,282

For the three months and nine months ended September 30, 2019 and 2018, (realized and unrealized) net foreign exchange loss was \$16,249 thousand, and gains were \$24,689 thousand, \$52,560 thousand and \$131,335 thousand, respectively. It is impractical to disclose net foreign exchange gains by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

31. OTHER SIGNIFICANT EVENT

The Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or the dropping of the claim for further prosecution. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation and others. On July 30, 2019, the Taiwan Hsinchu District Prosecutors Office concluded the investigation and prosecuted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. The Prosecutor's indictment shall be submitted for a retrial in the Taiwan Hsinchu District Court. The chairman of the Corporation will strive for a fair judgment. The financial position and operations of the Corporation are not affected in respect of this matter. On November 8, 2019, the Corporation was informed by Hsin Chu District Court that the Securities and Futures Investors Protection Center had instituted a lawsuit in court for an order dismissing the board of director against the Corporation and the chairman of the board of director. The Corporation has appointed attorneys to defend against this lawsuit. The financial position and operations of the Corporation are not affected in respect of this matter at current stage.

32. ADDITIONAL DISCLOSURES

- a. Information about significant transactions and b. investees:
 - 1) Financing provided to others. (None)
 - 2) Endorsements/guarantees provided. (None)

- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 5) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 2)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
 - 9) Trading in derivative instruments. (None)
 - 10) Other: Intercompany relationships and significant intercompany transactions. (Table 4)
 - 11) Information of investees. (Table 5)
- c. Information on investments in mainland China:
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 6)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses. (Table 7)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments include departments that design and sell flash memory controllers and make investments.

a. Segment revenue and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments:

	Segment Revenue		Segment Profits (Loss)	
	For the Three Months Ended		For the Three Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
Department that designs and sale of flash memory controllers	\$ 12,393,903	\$ 11,036,833	\$ 1,734,737	\$ 1,538,009
Investment department	-	-	(1,299)	(187)
Total operating segments	<u>\$ 12,393,903</u>	<u>\$ 11,036,833</u>	1,733,438	1,537,822
Other gains and losses			23,498	(11,603)
Share of gains (losses) of associates			2,666	(108,567)
Other income			136,461	61,519
Financial costs			(570)	(256)
Profit before tax			<u>\$ 1,895,493</u>	<u>\$ 1,478,915</u>

	Segment Revenue		Segment Profit	
	For the Nine Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
Department that designs and sale of flash memory controllers	\$ 31,520,047	\$ 30,665,532	\$ 3,868,483	\$ 3,849,394
Investment department	-	-	(1,620)	(341)
Total operating segments	<u>\$ 31,520,047</u>	<u>\$ 30,665,532</u>	3,866,863	3,849,053
Other gains and losses			132,983	155,368
Share of (losses) gains of associates			(325,600)	(24,261)
Other income			239,521	129,214
Financial costs			(1,768)	(3,749)
Income before income tax			<u>\$ 3,911,999</u>	<u>\$ 4,105,625</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the nine months ended September 30, 2019 and 2018.

Segment profit represented the profit before tax earned by each segment without the share of gains or losses of associates, rental income, interest income, gains or losses on the disposal of property, plant and equipment, gains or losses on sales of investments, exchange gains or losses, valuation gains or losses on financial instruments, financial costs and income tax expense.

b. Segment assets and liabilities

The Group does not report segment assets and liabilities or other segment information to the chief operating decision maker. Therefore, no information is disclosed.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

SEPTEMBER 30, 2019

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

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2019				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	<u>Beneficiary certificates</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 205,255	-	\$ 205,255	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	205,099	-	205,099	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	214,379	-	214,379	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	151,998	-	151,998	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	204,506	-	204,506	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	16,113	202,419	-	202,419	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	201,497	-	201,497	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	12,070	191,412	-	191,412	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	151,202	-	151,202	Note 3
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	14,809	200,875	-	200,875	Note 3
	Taishin Ta-Chong Money Market Fund	-	Financial assets at FVTPL - current	14,102	200,831	-	200,831	Note 3
	TCB Taiwan Money Market Fund	-	Financial assets at FVTPL - current	19,716	200,802	-	200,802	Note 3
	Capital Money Market Fund	-	Financial assets at FVTPL - current	12,416	200,827	-	200,827	Note 3
	<u>Convertible bonds</u>							
	Ubitus Inc.	-	Financial assets at FVTPL - current	-	182,042	-	182,042	Note 9
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	127,653	1.33	127,653	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	317,580	9.96	317,580	Note 4
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	49,682	0.67	49,682	Note 5
	AppWorks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	8,850	210,148	11.11	210,148	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	19,592	5.61	19,592	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	2,165	28,496	18.75	28,496	Note 5
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	529	-	0.60	-	-
	Viva Baseball Co., Ltd.	-	Financial assets at FVTOCI - non-current	Note 6	-	8.33	-	-
	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	45,446	19.00	45,446	Note 5
	THLight Co., Ltd.	-	Financial assets at FVTOCI - non-current	6,388	-	14.78	-	-
UD INFO Corp.	-	Financial assets at FVTOCI - non-current	741	58,958	17.98	58,958	Note 5	
GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	6.70	-	-	
Ironyun Incorporated (preference shares)	-	Financial assets at FVTOCI - non-current	5,000	-	5.92	-	-	

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2019				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	Gospal Ltd.	-	Financial assets at FVTOCI - non-current	811,857	\$ 3,042	3.40	\$ 3,042	Note 10
	H3 Platform, Inc.	-	Financial assets at FVTOCI - non-current	18,400	30,705	12.14	30,705	Note 7
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	63,446	17.16	63,446	Note 5
	Acer Synergy Tech Corp.	-	Financial assets at FVTPL - non-current	900	19,800	8.09	19,800	Note 7
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	10,417	3.39	10,417	Note 8
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Financial assets at FVTPL - non-current	25,000	18,693	1.08	18,693	Note 5
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	47,075	3.81	47,075	Note 5
	<u>Beneficiary certificates</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,469	-	30,469	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,453	-	30,453	Note 3
	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	5,616	75,698	16.12	75,698	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,250	-	2.23	-	-
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	44,015	1.18	44,015	Note 5
	Translink Capital Partners IV L.P.	-	Financial assets at FVTPL - non-current	430	11,752	0.59	11,752	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	241,753	7.25	241,753	Note 8
UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	30,010	2.51	30,010	Note 8	
Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	18,343	4.56	18,343	Note 8	
RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	16,520	2.05	16,520	Note 8	
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	3,980	50,031	-	50,031	Note 3
	FSITC Money Market	-	Financial assets at FVTPL - current	280	50,028	-	50,028	Note 3
	Taishin Ta-Chong Money Market Fund	-	Financial assets at FVTPL - current	3,513	50,029	-	50,029	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,235	-	10,235	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	5,816	60,275	-	60,275	Note 3
	<u>Preference shares</u>							
	ProGrade Digital, Inc.	-	Financial assets at FVTOCI - non-current	1,070	33,160	15.73	33,160	Note 7
<u>Common shares</u>								
My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-	
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficiary certificates</u>							
United Money Market Fund	-	Financial assets at FVTPL - current	5,189	18,786	-	18,786	Note 3	
Hefei Core Storage Electronic Limited	<u>Common shares</u>							
Hangzhou Hualan Microelectronique Co., Ltd.	-	Financial assets at FVTOCI - non-current	3,000	98,006	4.74	98,006	Note 10	

(Continued)

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

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

Note 3: The calculation of the market value was based on the net asset value as of September 30, 2019.

Note 4: The calculation of the market value was based on the closing price as of September 30, 2019.

Note 5: Refer to Note 26 (b)-3 for market value information.

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

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

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

Note 9: The calculation of the market value was based on the expert evaluation report as of September 30, 2019.

Note 10: The calculation of the market value was based on the most recent selling price.

Note 11: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Kingston Solutions Inc.	Investee company accounted for using the equity method	Purchase	\$ 473,097	2	Net 30 days after monthly closing	None	None	\$ (38,456)	(1)	-
	Toshiba Memory America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	937,318	5	Net 30 days after receipt date	None	None	(155,034)	(5)	-
	Toshiba Memory Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	9,147,639	44	Net 30 days after monthly closing	None	None	(644,062)	(20)	-
	HOSIN Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associates	Purchase	239,174	1	Net 7 days after receipt date	None	None	-	-	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,834,300	8	Net 30 days after monthly closing	None	None	(212,411)	(7)	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(627,272)	(2)	Net 60 days after monthly closing	None	None	76,924	1	-
	Kingston Solutions Inc.	Investee company accounted for using the equity method	Sale	(586,906)	(2)	Net 60 days after monthly closing	None	None	217,013	3	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(851,006)	(3)	Net 45 days after monthly closing	None	None	273,415	4	-
	Hefei Core Storage Electronic Limited	Sub-sub-subsidiary	Sale	(284,992)	(1)	Net 30 days after monthly closing	None	None	29,319	-	-
Hefei DATANG Storage Technology Co., Ltd.	The subsidiary of the sub-sub-subsidiary's associates	Sale	(200,993)	(1)	Net 60 days after receipt date	None	None	60,409	1	-	

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
Phison Electronics Corp.	Apacer Technology Inc. Kingston Solutions Inc.	The Corporation is its director Investee company accounted for using the equity method	\$ 273,415	5.59	\$ -	-	\$ 168,051	\$ -
			217,013	5.26	-	-	89,520	-

Note: As of October 31, 2019.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number	Company Name	Counterparty	Flow of Transaction	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	Phison Electronics Corp.	Hefei Core Storage Electronic Limited	1	Sales revenue	\$ 284,992	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	29,319	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research expenses	147,159	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	47,296	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	28,589	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	2,004	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	10,011	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	2,832	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Sales revenue	6,150	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Accounts receivable	3,328	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Purchase	1,493	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Sales revenue	86,241	Based on regular terms	-
		1	Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	2	Purchase	86,243

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

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

TABLE 5

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2019			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 2019	December 31, 2018	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ 106,050	\$ 106,050	10,605,000	32.91	\$ 912,954	\$ (1,048,366)	\$ (345,017)	Investee company accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	95,000	38,000,000	100.00	349,509	(6,221)	(6,221)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	676,952	16,717	16,717	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	24,081	2,828	1,386	Investee company accounted for using the equity method
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	34,108	(1,835)	(1,835)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	866,296	665,823	27,500,000	100.00	889,816	63,019	63,019	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	91,422	10,000,000	100.00	62,810	(1,365)	(1,365)	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	-	(116,865)	(35,639)	Investee company accounted for using the equity method
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	102,610	242	242	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	311,415	55,140	55,140	Subsidiary
Regis Investment (Samoa) Limited	Samoa	Investment	393,214	199,332	13,000,000	100.00	446,953	58,279	58,279	Subsidiary	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	60,090	7,235	-	Sub-subsiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	18,123	582	-	Investee company accounted for using the equity method
Emtops Electronics Corporation	Phison Technology Inc.	America	Sales and service office	31,415	-	1,000,000	100.00	24,985	(6,058)	-	Sub-subsiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2019			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 2019	December 31, 2018	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	\$ 10,000	\$ 10,000	1,000,000	100.00	\$ 41,365	\$ (271)	\$ -	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	776,767	576,229	24,550,000	100.00	859,443	63,879	-	Sub-subsidiary
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	98,754	98,754	3,000,000	100.00	96,491	174	-	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	391,986	40,950,000	100.00	173,982	57,463	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	391,989	197,760	12,950,000	100.00	445,455	57,930	-	Sub-subsidiary

(Concluded)

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
 (In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2019	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of September 30, 2019	Accumulated Inward Remittance of Earnings as of September 30, 2019	Note
					Outflow	Inflow						
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	b	\$ 53,096	\$ -	\$ -	\$ 53,096	100.00	\$ (541)	\$ 8,017	\$ -	b (2)
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	800,218	b	576,780	200,538	-	777,318	96.91	63,939	858,437	-	b (2)
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	b	182,825	-	-	182,825	100.00	1,374	179,418	-	b (1)
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and rendering of related services and investment	185,369	b	-	-	-	-	100.00	(3,464)	173,315	-	b (2)
Hefei Xinpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	618,078	b	-	-	-	-	43.62	(3,156)	258,372	-	b (1), b (2)
Hosin Global Electronics Co., Ltd.(SZ)	Design, R&D and sale of integrated circuits and electronics hardware and software and rendering of related services	459,100	b	-	183,640	-	183,640	40.00	56,633	234,763	-	b (1)

(Continued)

Accumulated Investments in Mainland China as of September 30, 2019	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 1,196,879 (US\$ 38,235)	\$ 1,220,501 (US\$ 39,190)	\$ 16,750,003

Note 1: Method of investment:

- a. Directly invested in mainland China.
- b. Indirectly invested in mainland China through companies registered in a third region.
 - 1) Indirectly invested in a China-based company through a company located in a third region, Regis Investment Limited, and its subsidiaries.
 - 2) Indirectly invested in a China-based company through a company located in a third region, Global Flash Limited, and its subsidiaries.

Note 2: The amounts were recognized based on unreviewed financial statements.

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Group's net asset value, which is \$27,916,671 x 60% = \$16,750,003.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsiidiary	Sale	\$ 284,992	1	Net 30 days after monthly closing	None	None	\$ 29,319	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsiidiary	Sale	86,241	-	Net 30 days after monthly closing	None	None	-	-	-
	Shenzhen EpoStar Electronics Limited CO.	Associates' subsidiary	Sale	19,999	-	Delivery after receipt	None	None	-	-	-
	Hefei DATANG Storage Technology Co., Ltd.	The subsidiary of the sub-subsiidiary's associates	Sale	200,993	1	Net 60 days after receipt date	None	None	60,409	1	-
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Sister company	Purchase	86,243	23	Net 30 days after monthly closing	None	None	-	-	-
	Hefei DATANG Storage Technology Co., Ltd.	The subsidiary of the subsidiary's associates	Sale	1,510	-	Net 30 days after receipt date	None	None	-	-	-