

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2020 and 2019 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, 2020 and 2019, the consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2020 and 2019, 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, 2020 and 2019, the combined assets of these subsidiaries were 11% (NT\$4,622,038 thousand) and 9% (NT\$3,290,931 thousand) of the Group's assets, respectively, and the combined liabilities of these subsidiaries were 7% (NT\$662,583 thousand) and 5% (NT\$416,666 thousand) of the Group's liabilities, respectively. For the three months and the nine months ended September 30, 2020 and 2019, these subsidiaries' comprehensive income were 1% (a gain of NT\$22,156 thousand), 13% (a gain of NT\$232,298 thousand), 3% (a gain of NT\$146,290 thousand), and 10% (a gain of NT\$347,548 thousand), respectively, of the Group's comprehensive income. 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, 2020 and 2019 amounted to NT\$1,282,621 thousand and NT\$1,448,293 thousand, respectively, and the share of profit (loss) of these associates accounted for using the equity method for the three months and the

nine months ended September 30, 2020 and 2019 amounted to a gain of NT\$39,312 thousand, a gain of NT\$2,666 thousand, a gain of NT\$461,866 thousand, and a loss of NT\$325,600 thousand, respectively. As stated in Note 35 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 the 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, 2020 and 2019, its consolidated financial performance for the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, and its consolidated cash flows for the nine months ended September 30, 2020 and 2019, 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 34 to the accompanying consolidated financial statements, the Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center (“Investors Protection Center”) had filed two civil actions, respectively, as follows: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim compensation damage against the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation had already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. As such, 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 12, 2020

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, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 12,945,910	31	\$ 10,205,257	27	\$ 9,456,533	26
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	3,262,145	8	3,440,905	9	3,458,683	10
Financial assets at amortized cost (Notes 9 and 30)	335,590	1	56,273	-	56,648	-
Notes and accounts receivable						
Non-related parties (Note 10)	4,965,372	12	5,396,821	14	5,836,889	16
Related parties (Notes 10 and 29)	602,485	1	537,149	1	664,684	2
Other receivables (Note 10)	255,335	1	427,082	1	254,247	1
Current tax assets	54,439	-	45,499	-	39,122	-
Inventories (Note 11)	11,237,763	27	11,532,724	30	9,606,394	27
Prepayments	198,668	1	282,396	1	48,479	-
Other current assets	57,260	-	35,733	-	96,052	-
Total current assets	33,914,967	82	31,959,839	83	29,517,731	82
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	448,300	1	459,306	1	449,253	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 8)	468,454	1	636,432	2	725,504	2
Investments accounted for using the equity method (Note 13)	1,282,621	3	1,644,159	4	1,448,293	4
Property, plant and equipment (Notes 14 and 30)	4,370,938	11	3,282,950	8	3,137,183	9
Right-of-use assets (Note 15)	25,530	-	32,840	-	34,876	-
Intangible assets (Note 16)	267,591	1	268,026	1	227,276	1
Deferred tax assets	416,906	1	346,732	1	300,923	1
Guarantee deposits paid	12,229	-	6,496	-	5,029	-
Total non-current assets	7,292,569	18	6,676,941	17	6,328,337	18
TOTAL	\$ 41,207,536	100	\$ 38,636,780	100	\$ 35,846,068	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ 757,500	2	\$ -	-	\$ -	-
Contract liabilities	48,168	-	130,615	-	122,280	-
Notes and accounts payable						
Non-related parties	1,624,757	4	2,258,562	6	2,202,949	6
Related parties (Note 29)	1,184,818	3	1,384,097	4	1,049,963	3
Other payables (Note 18)	4,928,896	12	4,398,129	11	3,467,584	10
Tax payable	173,390	1	602,714	2	418,017	1
Lease liabilities (Note 15)	12,094	-	12,520	-	11,825	-
Current portion of long-term borrowings (Notes 17 and 30)	30,372	-	-	-	-	-
Other current liabilities (Note 19)	557,622	1	519,744	1	533,975	1
Total current liabilities	9,317,617	23	9,306,381	24	7,806,593	21
NON-CURRENT LIABILITIES						
Long-term borrowings (Notes 17 and 30)	203,300	1	-	-	-	-
Deferred tax liabilities	112,614	-	21,930	-	-	-
Lease liabilities (Note 15)	13,577	-	20,702	-	23,348	-
Long-term deferred revenue	3,204	-	4,060	-	5,989	-
Net defined benefit liabilities (Note 20)	95,806	-	94,945	-	93,333	-
Guarantee deposits received	4,886	-	134	-	134	-
Total non-current liabilities	433,387	1	141,771	-	122,804	-
Total liabilities	9,751,004	24	9,448,152	24	7,929,397	21
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)						
Common shares	1,970,740	5	1,970,740	5	1,970,740	6
Capital surplus	6,625,367	16	6,724,104	17	6,695,551	19
Retained earnings						
Legal reserve	4,306,531	11	3,850,715	10	3,850,715	11
Special reserve	176,125	-	380,927	1	380,927	1
Unappropriated earnings	18,531,463	45	16,411,959	43	15,138,721	42
Total retained earnings	23,014,119	56	20,643,601	54	19,370,363	54
Other equity	(213,434)	(1)	(176,125)	-	(147,393)	-
Total equity attributable to owners of the Corporation	31,396,792	76	29,162,320	76	27,889,261	79
NON-CONTROLLING INTERESTS						
Total equity	59,740	-	26,308	-	27,410	-
Total equity	31,456,532	76	29,188,628	76	27,916,671	79
TOTAL	\$ 41,207,536	100	\$ 38,636,780	100	\$ 35,846,068	100

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

(With Deloitte & Touche auditors' review report dated November 12, 2020)

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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Note 29)								
Gross sales	\$ 11,813,712	99	\$ 12,714,574	103	\$ 35,855,253	101	\$ 31,784,265	101
Less: Sales returns and allowances	<u>(45,613)</u>	<u>-</u>	<u>353,945</u>	<u>3</u>	<u>342,436</u>	<u>1</u>	<u>496,913</u>	<u>2</u>
Net sales	11,859,325	99	12,360,629	100	35,512,817	100	31,287,352	99
Other operating revenue	<u>74,672</u>	<u>1</u>	<u>33,274</u>	<u>-</u>	<u>142,732</u>	<u>-</u>	<u>232,695</u>	<u>1</u>
Total operating revenue	11,933,997	100	12,393,903	100	35,655,549	100	31,520,047	100
OPERATING COSTS (Notes 11, 22 and 29)	<u>9,236,298</u>	<u>77</u>	<u>8,995,668</u>	<u>73</u>	<u>26,355,679</u>	<u>74</u>	<u>23,851,042</u>	<u>76</u>
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>50,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,677)</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>2,747,722</u>	<u>23</u>	<u>3,398,235</u>	<u>27</u>	<u>9,286,193</u>	<u>26</u>	<u>7,669,005</u>	<u>24</u>
OPERATING EXPENSES (Note 22)								
Marketing	148,682	1	158,874	1	454,129	1	402,295	1
General and administrative	192,808	2	175,390	1	556,810	2	415,144	1
Research and development	1,330,534	11	1,319,083	11	4,317,520	12	3,043,389	10
Expected credit (reversal gains) losses (Note 10)	<u>(64,566)</u>	<u>(1)</u>	<u>11,450</u>	<u>-</u>	<u>(45,029)</u>	<u>-</u>	<u>(58,686)</u>	<u>-</u>
Total operating expenses	<u>1,607,458</u>	<u>13</u>	<u>1,664,797</u>	<u>13</u>	<u>5,283,430</u>	<u>15</u>	<u>3,802,142</u>	<u>12</u>
OPERATING INCOME	<u>1,140,264</u>	<u>10</u>	<u>1,733,438</u>	<u>14</u>	<u>4,002,763</u>	<u>11</u>	<u>3,866,863</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)								
Other income	77,838	1	126,954	1	194,770	1	199,310	1
Other gains and losses	765,465	6	23,498	-	697,138	2	132,983	-
Financial costs	(1,383)	-	(570)	-	(2,406)	-	(1,768)	-
Interest income	6,549	-	9,507	-	35,221	-	40,211	-
Share of profits (losses) of associates (Note 13)	<u>39,312</u>	<u>-</u>	<u>2,666</u>	<u>-</u>	<u>461,866</u>	<u>1</u>	<u>(325,600)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>887,781</u>	<u>7</u>	<u>162,055</u>	<u>1</u>	<u>1,386,589</u>	<u>4</u>	<u>45,136</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	2,028,045	17	1,895,493	15	5,389,352	15	3,911,999	12
INCOME TAX EXPENSE (Note 23)	<u>188,464</u>	<u>2</u>	<u>262,965</u>	<u>2</u>	<u>466,861</u>	<u>1</u>	<u>616,582</u>	<u>2</u>
NET PROFIT FOR THE PERIOD	<u>1,839,581</u>	<u>15</u>	<u>1,632,528</u>	<u>13</u>	<u>4,922,491</u>	<u>14</u>	<u>3,295,417</u>	<u>10</u>

(Continued)

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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized (loss) gain on investments in equity instruments at fair value through other comprehensive income	\$ (20,556)	-	\$ 167,271	1	\$ 485	-	\$ 253,793	1
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	15,077	-	(45,139)	-	(25,863)	-	(35,927)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 23)	(2,828)	-	8,814	-	5,139	-	6,902	-
Other comprehensive (loss) income for the period, net of income tax	(8,307)	-	130,946	1	(20,239)	-	224,768	1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ 1,831,274	15	\$ 1,763,474	14	\$ 4,902,252	14	\$ 3,520,185	11
NET PROFIT ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,833,764	15	\$ 1,631,173	13	\$ 4,915,106	14	\$ 3,292,266	10
Non-controlling interests	5,817	-	1,355	-	7,385	-	3,151	-
	<u>\$ 1,839,581</u>	<u>15</u>	<u>\$ 1,632,528</u>	<u>13</u>	<u>\$ 4,922,491</u>	<u>14</u>	<u>\$ 3,295,417</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,824,655	15	\$ 1,763,189	14	\$ 4,895,171	14	\$ 3,518,452	11
Non-controlling interests	6,619	-	285	-	7,081	-	1,733	-
	<u>\$ 1,831,274</u>	<u>15</u>	<u>\$ 1,763,474</u>	<u>14</u>	<u>\$ 4,902,252</u>	<u>14</u>	<u>\$ 3,520,185</u>	<u>11</u>
EARNINGS PER SHARE (NT\$, Note 24)								
Basic	<u>\$9.30</u>		<u>\$8.28</u>		<u>\$24.94</u>		<u>\$16.71</u>	
Diluted	<u>\$9.20</u>		<u>\$8.24</u>		<u>\$24.58</u>		<u>\$16.52</u>	

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

(With Deloitte & Touche auditors' review report dated November 12, 2020)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Corporation						Exchange Differences on Translating Foreign Operations	Other Equity Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Legal Reserve					
			Special Reserve								
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	-	-	431,812	-	(431,812)	-	-	-	-	-	
Legal reserve	-	-	-	-	(380,927)	-	-	-	-	-	
Special reserve	-	-	-	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 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 (loss) income 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	
BALANCE AT JANUARY 1, 2020	\$ 1,970,740	\$ 6,724,104	\$ 3,850,715	\$ 380,927	\$ 16,411,959	\$ (112,499)	\$ (63,626)	\$ 29,162,320	\$ 26,308	\$ 29,188,628	
Appropriation of the 2019 earnings	-	-	455,816	-	(455,816)	-	-	-	-	-	
Legal reserve	-	-	-	-	204,802	-	-	-	-	-	
Reversal of special reserve	-	-	-	(204,802)	-	-	-	-	-	-	
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	25,924	25,924	
Changes in percentage of ownership interests in subsidiaries	-	(333)	-	-	-	-	-	(333)	333	-	
Changes in capital surplus from investments in associates accounted for using the equity method	-	(237,823)	-	-	-	-	-	(237,823)	94	(237,729)	
Recognition of employee share options	-	139,419	-	-	-	-	-	139,419	-	139,419	
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	17,374	-	(17,374)	-	-	-	
Net profit for the nine months ended September 30, 2020	-	-	-	-	4,915,106	-	-	4,915,106	7,385	4,922,491	
Other comprehensive (loss) income for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	(20,420)	485	(19,935)	(304)	(20,239)	
BALANCE AT SEPTEMBER 30, 2020	\$ 1,970,740	\$ 6,625,367	\$ 4,306,531	\$ 176,125	\$ 18,531,463	\$ (132,919)	\$ (80,515)	\$ 31,396,792	\$ 59,740	\$ 31,456,532	

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

(With Deloitte & Touche auditors' review report dated November 12, 2020)

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	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,389,352	\$ 3,911,999
Adjustments for:		
Depreciation	276,320	210,627
Amortization	144,787	118,770
Reversed expected credit losses	(45,029)	(58,686)
Net loss (gain) on financial assets at fair value through profit or loss	92,139	(81,864)
Financial costs	2,406	1,768
Interest income	(35,221)	(40,211)
Dividend income	(82,471)	(41,922)
Compensation costs of employee share options	139,419	-
Share of (profits) losses of associates	(461,866)	325,600
Loss (gain) on disposal of property, plant and equipment	2,128	(1,667)
(Gain) loss on disposal of associates	(966,250)	2,960
Write-down (reversal of write-down) of inventories	202,559	(26,244)
Unrealized gain on transactions with associates	13,677	-
Unrealized loss (gain) on foreign currency exchange	66,831	(13,962)
Gains on modification of lease	(468)	-
Recognition of refund liabilities	211,593	257,030
Net changes related to operating assets and liabilities		
Notes and accounts receivable	359,330	(1,231,918)
Other receivables	171,750	14,917
Inventories	98,539	(2,003,394)
Prepayments	68,399	(21,220)
Other current assets	(20,122)	8,219
Contract liabilities	(82,447)	88,010
Notes and accounts payable	(783,274)	(1,541,867)
Other payables	511,670	(251,212)
Other current liabilities	(157,220)	(106,474)
Net defined benefit liabilities	861	506
Deferred revenue	(856)	(8,079)
Cash generated from (used in) operations	5,116,536	(488,314)
Interest paid	(2,335)	(1,768)
Income tax paid	(878,781)	(728,453)
Net cash generated from (used in) operating activities	<u>4,235,420</u>	<u>(1,218,535)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(3,825)	(33,160)
Proceeds from sale of financial assets at fair value through other comprehensive income	144,484	8,674

(Continued)

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	
	2020	2019
Proceeds of the capital reduction of financial assets at fair value through other comprehensive income	\$ 246	\$ -
Purchase of financial assets at amortized cost	(279,317)	-
Proceeds from sale of financial assets at amortized cost	-	10,569
Purchase of financial assets at fair value through profit or loss	(13,892)	(323,991)
Proceeds of the capital reduction of financial assets at fair value through profit or loss	19,140	-
Proceeds from sale of financial assets at fair value through profit or loss	92,379	3,252
Acquisition of associates	(217,727)	(272,371)
Net cash inflow on disposal of associates	1,776,295	-
Net cash outflow on acquisition of subsidiaries	(316,430)	-
Payments for property, plant and equipment	(676,160)	(269,868)
Proceeds from disposal of property, plant and equipment	37	1,771
(Increase) decrease in refundable deposits	(5,678)	2,099
Payments for intangible assets	(143,812)	(193,510)
Interest received	35,609	41,284
Other dividends received	<u>82,471</u>	<u>41,922</u>
Net cash generated from (used in) investing activities	<u>493,820</u>	<u>(983,329)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	730,560	-
Repayments of long-term borrowings	(99,150)	-
Decrease in guarantee deposits	(354)	(10)
Repayments of the principal portion of lease liabilities	(12,041)	(7,721)
Dividends paid	(2,561,962)	(2,561,962)
Increase in non-controlling interests	<u>25,924</u>	<u>27,298</u>
Net cash used in financing activities	<u>(1,917,023)</u>	<u>(2,542,395)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(71,564)</u>	<u>24,396</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,740,653	(4,719,863)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	<u>10,205,257</u>	<u>14,176,396</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>\$ 12,945,910</u>	<u>\$ 9,456,533</u>

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

(With Deloitte & Touche auditors' review report dated November 12, 2020)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (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 trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

The consolidated financial statements of the Corporation and its subsidiaries, 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 12, 2020.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies.

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
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, 2023
Amendments to IFRS 17	January 1, 2023

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

(Concluded)

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

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable 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, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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 consolidated financial statements.

Basis of Preparation

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

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

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

Basis of Consolidation

The principles for the preparation of the interim consolidated financial statements are consistent with that of the consolidated financial statements for the year ended December 31, 2019.

Refer to Note 12, Table 6 and Table 7 for detailed information on the subsidiaries, including the percentages of ownership and main businesses.

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, 2019.

- a. 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.

- b. 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 would be applicable to expected total annual earnings.

- c. Business combinations

Acquisitions of businesses are accounted for by using the acquisition method. Associated costs of acquisition are generally recognized in profit or loss as they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of the Group's critical accounting judgments, estimates and assumptions in this report are consistent with the report for the year ended December 31, 2019.

The Group considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

6. CASH AND CASH EQUIVALENTS

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand	\$ 147	\$ 93	\$ 110
Checking accounts and demand deposits	9,578,131	7,672,079	7,527,331
Cash equivalents			
Time deposits with original maturities within 3 months	<u>3,367,632</u>	<u>2,533,085</u>	<u>1,929,092</u>
	<u>\$ 12,945,910</u>	<u>\$ 10,205,257</u>	<u>\$ 9,456,533</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Non-derivative financial assets - current</u>			
Financial assets mandatorily classified as FVTPL			
Beneficiary certificates - open-end funds	\$ 2,836,569	\$ 2,816,597	\$ 2,831,408
Domestic listed shares	425,576	529,538	445,233
Convertible bonds	<u>-</u>	<u>94,770</u>	<u>182,042</u>
	<u>\$ 3,262,145</u>	<u>\$ 3,440,905</u>	<u>\$ 3,458,683</u>
<u>Non-derivative financial assets - non-current</u>			
Financial assets mandatorily classified as FVTPL			
Private equity funds	\$ 43,882	\$ 45,408	\$ 47,075
Domestic unlisted shares	333,529	341,618	296,729
Overseas unlisted shares	<u>70,889</u>	<u>72,280</u>	<u>105,449</u>
	<u>\$ 448,300</u>	<u>\$ 459,306</u>	<u>\$ 449,253</u>

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

Investments in Equity Instruments at FVTOCI

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic investments - unlisted shares	\$ 151,198	\$ 230,267	\$ 198,445
Overseas investments - unlisted shares	<u>317,256</u>	<u>406,165</u>	<u>527,059</u>
	<u>\$ 468,454</u>	<u>\$ 636,432</u>	<u>\$ 725,504</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.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

	September 30, 2020	December 31, 2019	September 30, 2019
Segregated foreign exchange deposit account for Offshore Funds (Note)	\$ 258,968	\$ -	\$ -
Certificates of deposit	40,409	20,383	20,383
Time deposits with original maturities of more than 3 months	<u>36,213</u>	<u>35,890</u>	<u>36,265</u>
	<u>\$ 335,590</u>	<u>\$ 56,273</u>	<u>\$ 56,648</u>

As of September 30, 2020, December 31, 2019 and September 30, 2019, the ranges of interest rates for time deposits with original maturities of more than 3 months were 0.10%-1.75%. The Group assessed that the expected credit risk of the above financial assets was not material since the credit risk has not increased significantly since initial recognition.

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

Note: The Group was approved by the Ministry of Finance in August 2020 to repatriate US\$9,673 thousand in accordance with “The Management, Utilization, and Taxation of Repatriated Offshore Funds Act” (the Act). The repatriated amount, net of tax, was deposited into segregated foreign exchange deposit account (segregated account). The deposit in segregated account is subject to restrictions based on the Act.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Notes receivable</u>			
At amortized cost			
Gross carrying amount	\$ -	\$ -	\$ 10,566
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,566</u>
Notes receivable - non-operating	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,566</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount - non-related parties	\$ 5,021,872	\$ 5,494,199	\$ 5,919,091
Gross carrying amount - related parties	<u>602,485</u>	<u>537,149</u>	<u>664,684</u>
	5,624,357	6,031,348	6,583,775
Less: Loss allowance	<u>(56,500)</u>	<u>(97,378)</u>	<u>(92,768)</u>
	<u>\$ 5,567,857</u>	<u>\$ 5,933,970</u>	<u>\$ 6,491,007</u>

(Continued)

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Other receivables</u>			
Tax refunds receivable	\$ 192,204	\$ 292,145	\$ 211,252
Factored accounts receivable	36,508	30,342	21,751
Convertible bonds redemption receivable	-	83,286	-
Others	<u>26,623</u>	<u>21,309</u>	<u>21,244</u>
	<u>\$ 255,335</u>	<u>\$ 427,082</u>	<u>\$ 254,247</u> (Concluded)

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 Group 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 measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. 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. when the debtor has been placed under liquidation, or when the trade receivables are over two years past due, whichever occurs earlier. 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 and accounts receivables based on the Group's allowance matrix.

September 30, 2020

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Gross carrying amount	\$ 4,763,187	\$ 254,534	\$ -	\$ -	\$ -	\$ 4,151	\$ 5,021,872
Loss allowance (lifetime expected credit losses)	<u>(29,344)</u>	<u>(23,005)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,151)</u>	<u>(56,500)</u>
Amortized cost	<u>\$ 4,733,843</u>	<u>\$ 231,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,965,372</u>

December 31, 2019

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Gross carrying amount	\$ 5,028,970	\$ 426,409	\$ 2,282	\$ 12,802	\$ 667	\$ 23,069	\$ 5,494,199
Loss allowance (lifetime expected credit losses)	<u>(23,357)</u>	<u>(41,121)</u>	<u>(1,238)</u>	<u>(8,059)</u>	<u>(534)</u>	<u>(23,069)</u>	<u>(97,378)</u>
Amortized cost	<u>\$ 5,005,613</u>	<u>\$ 385,288</u>	<u>\$ 1,044</u>	<u>\$ 4,743</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>\$ 5,396,821</u>

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
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>

The movements of the loss allowance of notes and accounts receivables were as follows:

	For the Nine Months Ended September 30	
	2020	2019
Balance, beginning of period	\$ 97,378	\$ 151,342
Add: Amounts reversed	(45,029)	(58,686)
Add: Acquisitions through business combinations (Note 26)	4,151	-
Foreign exchange gains and losses	<u>-</u>	<u>112</u>
Balance, end of the period	<u>\$ 56,500</u>	<u>\$ 92,768</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, 2020</u>					
HSBC Bank	US\$ 5,787	US\$ 1,255	US\$ -	-	-
For the nine months ended <u>September 30, 2019</u>					
HSBC Bank	US\$ 13,448	US\$ 701	US\$ -	-	-

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, 2020	December 31, 2019	September 30, 2019
Raw materials	\$ 5,959,716	\$ 6,933,204	\$ 3,987,489
Work-in-process	3,968,263	2,672,047	3,398,873
Semi-finished goods	1,218,249	1,762,677	2,040,936
Finished goods	89,781	120,337	176,400
Merchandise	<u>1,754</u>	<u>44,459</u>	<u>2,696</u>
	<u>\$ 11,237,763</u>	<u>\$ 11,532,724</u>	<u>\$ 9,606,394</u>

The inventories recognized as costs of goods sold for the three months and nine months ended September 30, 2020 and 2019 were \$9,236,298 thousand, \$8,995,668 thousand, \$26,355,679 thousand and \$23,851,042 thousand, respectively.

The costs of goods sold for the three months and nine months ended September 30, 2020 and 2019 included reversals of inventory write-downs of \$83,244 thousand, reversals of inventory write-downs of \$42,336 thousand, inventory write-downs of \$202,559 thousand and reversals of inventory write-downs of \$26,244 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, 2020	December 31, 2019	September 30, 2019	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	100.00	-
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	100.00	-
	Emtops Electronics Corp.	Investment	100.00	100.00	100.00	-
	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	-	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	-
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	-
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	100.00	-
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	100.00	-
	Regis Investment (Samoa) Limited	Investment	100.00	100.00	100.00	-
	Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	100.00	100.00
Core Storage Electronic (Samoa) Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	100.00	-
	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic products and technical support service and rendering of related services	95.49	97.69	96.91	-
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	-
	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	-	-	Remark 2
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	-	-	100.00	Remark 1
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	100.00	-
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale and trade of electronic products	100.00	100.00	100.00	-
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	100.00	100.00	-
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100.00	100.00	100.00	-
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	-
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100.00	100.00	100.00	-
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100.00	-	-	Remark 3 and Note 26

Remark 1: The Corporation acquired 100% equity of Phisontech Electronics Taiwan Corp. from its subsidiary, Phisontech Electronics (Malaysia) Sdn. Bhd. in November 2019. This transaction was regarded as a reorganization under common control.

Remark 2: Hefei Core Storage Electronic Limited acquired 100% equity of Phisontech (Shenzhen) Limited from Global Flash Limited in July 2020. This transaction was regarded as a reorganization under common control.

Remark 3: Based on the group's development strategy, Phisontech Electronics Taiwan Corp. acquired 100% equity of Super Storage Technology Corporation in July 2020.

Remark 4: The financial statements of the immaterial subsidiaries have not been reviewed.

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

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	September 30, 2020	December 31, 2019	September 30, 2019
<u>Unlisted shares</u>			
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 484,745	\$ 390,993	\$ 234,763
Hefei Xinpeng Technology Co., Ltd.	308,556	245,507	258,372
Epostar Electronics (BVI) Corporation	264,166	-	-
Nextorage Corporation	94,047	-	-
ProGrade Digital, Inc.	89,061	-	-
Microtops Design Corporation ("Microtops")	23,734	24,403	24,081
PMS Technology Corporation	18,312	17,962	18,123
Kingston Solutions Inc.	<u>-</u>	<u>965,294</u>	<u>912,954</u>
	<u>\$ 1,282,621</u>	<u>\$ 1,644,159</u>	<u>\$ 1,448,293</u>

Refer to Table 6 and Table 7 for the nature of activities, principal place of business and country of incorporation of the associates.

Based on operational considerations, the Group invested JPY294,000 thousand in Nextorage Corporation, US\$2,785 thousand in ProGrade Digital, Inc., and CNY20,000 thousand in Hefei Xinpeng Technology Co., Ltd in 2020. As of September 30, 2020, the Group's percentages of ownership in Nextorage Corporation, ProGrade Digital, Inc., and Hefei Xinpeng Technology Co., Ltd. were 49%, 33.55% and 47.37%, respectively.

EpoStar Electronics (BVI) Corporation disposed of its subsidiary in February 2020, resulting in an increase in the carrying amount of the Group's investment at the end of the period and an increase in the Group's share of profit of associates for the period.

In response to market development strategy, the Group disposed of its investment in Kingston Solutions Inc. to Kingston Technology Corporation, a non-related party, with \$1,781,640 thousand in September 2020, and recognized a gain on the disposal of investment of \$967,348 thousand.

Based on operational considerations, the Group invested CNY62,000 thousand in HOSIN Global Electronics Co., Ltd. (SZ) in 2019. As of September 30, 2020, the Group's percentage of ownership in HOSIN Global Electronics Co., Ltd. (SZ) was 36.76%.

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, 2020 and 2019 were based on the financial statements that have not been reviewed.

14. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2020	December 31, 2019	September 30, 2019
Land	\$ 1,144,737	\$ 958,807	\$ 813,738
Land improvements	2,160	3,043	3,338
Buildings	2,100,628	1,739,428	1,750,868
Testing equipment	512,993	491,869	498,982
Office equipment	28,774	24,106	20,605
Mechanical equipment	76,397	44,256	-
Other equipment	78,707	21,441	49,652
Construction in progress	<u>426,542</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,370,938</u>	<u>\$ 3,282,950</u>	<u>\$ 3,137,183</u>

To increase the scale of operations, the Corporation's board of directors resolved on January 17, 2020 to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Corporation. The total price of the project was approximately \$1,398,000 thousand. The Corporation financed the construction with its own funds. The construction period is from March 2020 to December 2021.

The Group acquired Super Storage Technology Corporation in July 2020. Refer to Note 26 for information of acquisition relating to the property, plant and equipment.

Except for the depreciation and the aforementioned transactions, the Group had no significant additions to, disposals of, and impairment of property, plant and equipment for the nine months ended September 30, 2020 and 2019.

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

Land improvements	7 years
Buildings	20-50 years
Buildings - electrical engineering	20 years
Testing equipment	3-5 years
Office equipment	3-7 years
Mechanical equipment	1-6 years
Other equipment	1-10 years

Property, plant and equipment pledged as collateral for bank borrowings are disclosed in Note 30.

15. LEASE ARRANGEMENTS

a. Right-of-use assets

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Carrying amounts</u>			
Buildings	\$ 20,063	\$ 32,058	\$ 33,937
Transportation equipment	537	782	939
Other assets	<u>4,930</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,530</u>	<u>\$ 32,840</u>	<u>\$ 34,876</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Depreciation charge for right-of-use assets				
Buildings	\$ 2,209	\$ 2,822	\$ 10,155	\$ 7,574
Transportation equipment	156	156	469	470
Other assets	<u>822</u>	<u>-</u>	<u>1,644</u>	<u>-</u>
	<u>\$ 3,187</u>	<u>\$ 2,978</u>	<u>\$ 12,268</u>	<u>\$ 8,044</u>

Except for the depreciation, the Group had no significant additions, subleases, and impairment losses recognized on right-of-use assets for the nine months ended September 30, 2020 and 2019.

b. Lease liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Carrying amounts</u>			
Current	<u>\$ 12,094</u>	<u>\$ 12,520</u>	<u>\$ 11,825</u>
Non-current	<u>\$ 13,577</u>	<u>\$ 20,702</u>	<u>\$ 23,348</u>

Range of discount rate for lease liabilities was as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Buildings	2.08%-2.60%	2.55%-2.85%	2.60%-2.85%
Transportation equipment	2.60%	2.60%	2.60%
Other assets	2.08%	-	-

c. Other lease information

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 had elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

16. INTANGIBLE ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
Computer software	\$ 201,108	\$ 173,480	\$ 123,367
Technology license fees	<u>66,483</u>	<u>94,546</u>	<u>103,909</u>
	<u>\$ 267,591</u>	<u>\$ 268,026</u>	<u>\$ 227,276</u>

Except for acquisitions through business combinations (Note 26) and amortization, the Group had no significant additions, disposals, and impairment of intangible assets for the nine months ended September 30, 2020 and 2019.

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

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

17. BORROWINGS

a. Short-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Unsecured borrowings</u>			
Bank loans	\$ 757,500	\$ -	\$ -
Annual interest rates	0.58%-1.07%	-	-

b. Long-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Secured borrowings (Note 30)</u>			
Bank loans	\$ 233,672	\$ -	\$ -
Less: Current portions	<u>(30,372)</u>	<u>-</u>	<u>-</u>
Long-term borrowings	\$ 203,300	\$ -	\$ -
Annual interest rate	1.50%	-	-
Maturity date	January 2028	-	-

18. OTHER PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Salaries and bonuses payable	\$ 3,770,215	\$ 3,221,135	\$ 2,257,050
Others	<u>1,158,681</u>	<u>1,176,994</u>	<u>1,210,534</u>
	\$ 4,928,896	\$ 4,398,129	\$ 3,467,584

19. OTHER CURRENT LIABILITIES

	September 30, 2020	December 31, 2019	September 30, 2019
Refund liabilities	\$ 485,316	\$ 419,506	\$ 345,883
Receipts under custody	35,985	29,245	40,297
Payables for purchases of equipment	13,597	35,810	75,189
Others	<u>22,724</u>	<u>35,183</u>	<u>72,606</u>
	\$ 557,622	\$ 519,744	\$ 533,975

20. RETIREMENT BENEFIT PLANS

Employee benefits expenses for the three months and the nine months ended September 30, 2020 and 2019 in respect of the Group's defined benefit retirement plans were \$808 thousand, \$676 thousand, \$2,416 thousand and \$2,028 thousand, respectively, and were calculated using the actuarially determined pension cost discount rate at the end of the prior financial years ended December 31, 2019 and 2018.

21. EQUITY

a. Common shares

	September 30, 2020	December 31, 2019	September 30, 2019
Number of shares authorized (in thousands)	<u>300,000</u>	<u>280,000</u>	<u>280,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 2,800,000</u>	<u>\$ 2,800,000</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, 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 FSC approved this plan as shown in the FSC's issued document No. 1070344165. In accordance with Article 56(2)i 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. The employee share options were not issued and are not to be issued after November 27, 2019 in accordance with the regulations.

On November 11, 2019, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on November 22, 2019, after the FSC approved this plan as shown in the FSC's issued document No. 1080336954. In accordance with Article 56(2)i of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2019, 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. Refer to Note 25 for information relating to issuance.

On March 27, 2020, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on April 10, 2020, after the Financial Supervisory Commission (FSC) approved this plan as shown in the FSC's issued document No. 1090337137. In accordance with Article 56(2)i of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2020, 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.

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, 29,000 thousand shares were reserved for the issuance of employee share options.

b. Capital surplus

	September 30, 2020	December 31, 2019	September 30, 2019
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>			
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
<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)	2,036	2,369	1,621
Share of changes in capital surplus of associates	97,493	335,316	307,511
<u>May not be used for any purpose</u>			
Employee share options	<u>139,419</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,625,367</u>	<u>\$ 6,724,104</u>	<u>\$ 6,695,551</u>

- 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 dividend 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 until the accumulated legal capital reserve equals to the paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with the beginning balance of undistributed retained earnings shall be used by the 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 the amendment, refer to Note 22(g) "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, 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 proposes 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 as a 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 2019 and 2018 were resolved in the shareholders' meeting on June 3, 2020 and June 12, 2019, respectively, and were as follows:

	Appropriation of Earnings	
	For Year 2019	For Year 2018
Legal reserve	\$ 455,816	\$ 431,812
(Reversal) special reserve	(204,802)	380,927
Cash dividends	2,561,962	2,561,962
Dividends per share (NT\$)	13	13

22. NET PROFIT FOR THE PERIOD

a. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Net (loss) gain on financial assets at FVTPL	\$ (69,636)	\$ 42,572	\$ (92,139)	\$ 81,864
Gain (loss) on disposal of investments accounted for using the equity method (Note 13)	966,250	(2,960)	966,250	(2,960)
Net foreign exchange (losses) gains	(128,506)	(16,249)	(173,449)	52,560
Others	<u>(2,643)</u>	<u>135</u>	<u>(3,524)</u>	<u>1,519</u>
	<u>\$ 765,465</u>	<u>\$ 23,498</u>	<u>\$ 697,138</u>	<u>\$ 132,983</u>

b. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest income				
Bank deposits	\$ 6,549	\$ 9,507	\$ 28,969	\$ 40,185
Others	<u>-</u>	<u>-</u>	<u>6,252</u>	<u>26</u>
	<u>\$ 6,549</u>	<u>\$ 9,507</u>	<u>\$ 35,221</u>	<u>\$ 40,211</u>

c. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Rental income	\$ 6,477	\$ 348	\$ 7,232	\$ 1,044
Dividend income	29,316	29,719	82,471	41,922
Others	<u>42,045</u>	<u>96,887</u>	<u>105,067</u>	<u>156,344</u>
	<u>\$ 77,838</u>	<u>\$ 126,954</u>	<u>\$ 194,770</u>	<u>\$ 199,310</u>

d. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest on bank loans	\$ 1,238	\$ 321	\$ 1,698	\$ 1,085
Interest on lease liabilities	<u>145</u>	<u>249</u>	<u>708</u>	<u>683</u>
	<u>\$ 1,383</u>	<u>\$ 570</u>	<u>\$ 2,406</u>	<u>\$ 1,768</u>

e. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Property, plant and equipment	\$ 97,732	\$ 73,453	\$ 264,052	\$ 202,583
Right-of-use assets	3,187	2,978	12,268	8,044
Intangible assets	<u>50,457</u>	<u>35,733</u>	<u>144,787</u>	<u>118,770</u>
	<u>\$ 151,376</u>	<u>\$ 112,164</u>	<u>\$ 421,107</u>	<u>\$ 329,397</u>
An analysis of depreciation by function				
Operating costs	\$ 30,627	\$ 14,371	\$ 64,711	\$ 39,202
Operating expenses	<u>70,292</u>	<u>62,060</u>	<u>211,609</u>	<u>171,425</u>
	<u>\$ 100,919</u>	<u>\$ 76,431</u>	<u>\$ 276,320</u>	<u>\$ 210,627</u>
An analysis of amortization by function				
Operating costs	\$ -	\$ 1,952	\$ 14	\$ 5,829
Operating expenses	<u>50,457</u>	<u>33,781</u>	<u>144,773</u>	<u>112,941</u>
	<u>\$ 50,457</u>	<u>\$ 35,733</u>	<u>\$ 144,787</u>	<u>\$ 118,770</u>

f. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 1,338,898	\$ 1,144,701	\$ 4,092,819	\$ 2,650,656
Post-employment benefits				
Defined contribution plan	30,981	24,517	85,163	70,138
Defined benefit plan (Note 20)	<u>808</u>	<u>676</u>	<u>2,416</u>	<u>2,028</u>
	<u>31,789</u>	<u>25,193</u>	<u>87,579</u>	<u>72,166</u>
Share-based payments				
Equity-settled	<u>47,459</u>	-	<u>139,419</u>	-
Termination benefits	-	-	<u>93</u>	-
Other employee benefits				
Employee welfare	15,865	16,672	46,910	42,365
Food stipend	<u>18,130</u>	<u>12,553</u>	<u>46,190</u>	<u>35,615</u>
	<u>33,995</u>	<u>29,225</u>	<u>93,100</u>	<u>77,980</u>
	<u>\$ 1,452,141</u>	<u>\$ 1,199,119</u>	<u>\$ 4,413,010</u>	<u>\$ 2,800,802</u>
Employee benefits				
Recognized in operating costs	\$ 173,754	\$ 61,905	\$ 316,987	\$ 173,776
Recognized in operating expenses	<u>1,278,387</u>	<u>1,137,214</u>	<u>4,096,023</u>	<u>2,627,026</u>
	<u>\$ 1,452,141</u>	<u>\$ 1,199,119</u>	<u>\$ 4,413,010</u>	<u>\$ 2,800,802</u>

g. 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, 2020 and 2019, the employees' compensation and remuneration of directors and supervisors were as follows:

Accrual rate

	For the Nine Months Ended September 30	
	2020	2019
Employees' compensation	9.89%	10.15%
Remuneration of directors and supervisors	0.71%	0.80%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Employees' compensation	<u>\$ 221,004</u>	<u>\$ 217,515</u>	<u>\$ 591,095</u>	<u>\$ 445,069</u>
Remuneration of directors and supervisors	<u>\$ 5,384</u>	<u>\$ 12,245</u>	<u>\$ 42,393</u>	<u>\$ 35,000</u>

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, were approved by the Corporation's board of directors on March 16, 2020 and March 21, 2019, respectively, are shown below:

	For the Year Ended December 31			
	2019		2018	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Employees' compensation	\$ 650,000	\$ -	\$ 550,000	\$ -
Remuneration of directors and supervisors	35,000	-	40,000	-

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gains or losses on foreign currency exchange

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Foreign exchange gains	\$ 59,569	\$ 76,937	\$ 220,789	\$ 218,226
Foreign exchange losses	<u>(188,075)</u>	<u>(93,186)</u>	<u>(394,238)</u>	<u>(165,666)</u>
Net (losses) gains	<u>\$ (128,506)</u>	<u>\$ (16,249)</u>	<u>\$ (173,449)</u>	<u>\$ 52,560</u>

23. INCOME TAXES

a. Income tax recognized in profit or loss:

The major components of tax expense were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ 169,969	\$ 270,499	\$ 625,855	\$ 560,803
Adjustments for prior periods	(46,140)	-	(267,627)	-
Income tax on unappropriated earnings	<u>-</u>	<u>-</u>	<u>82,357</u>	<u>38,463</u>
	123,829	270,499	440,585	599,266
Deferred tax				
In respect of the current period	<u>64,635</u>	<u>(7,534)</u>	<u>26,276</u>	<u>17,316</u>
Income tax expense recognized in profit or loss	<u>\$ 188,464</u>	<u>\$ 262,965</u>	<u>\$ 466,861</u>	<u>\$ 616,582</u>

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Group only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

b. Income tax benefit (expense) recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Deferred income tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	<u>\$ (2,828)</u>	<u>\$ 8,814</u>	<u>\$ 5,139</u>	<u>\$ 6,902</u>
Total income tax recognized in other comprehensive income	<u>\$ (2,828)</u>	<u>\$ 8,814</u>	<u>\$ 5,139</u>	<u>\$ 6,902</u>

c. Income tax assessments

<u>Associate</u>	<u>For the Year Ended</u>
Phison Electronics Corp.	2018
Lian Xu Dong Investment Corporation	2018
Emtops Electronics Corp.	2018
Ostek Corporation	2018
Phisontech Electronics Taiwan Corp.	2018
Memoryexchange Corporation	2018
Super Storage Technology Corporation	2018

24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Basic earnings per share	<u>\$ 9.30</u>	<u>\$ 8.28</u>	<u>\$ 24.94</u>	<u>\$ 16.71</u>
Diluted earnings per share	<u>\$ 9.20</u>	<u>\$ 8.24</u>	<u>\$ 24.58</u>	<u>\$ 16.52</u>

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

Net Profit

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Earnings used in the computation of basic earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 1,833,764</u>	<u>\$ 1,631,173</u>	<u>\$ 4,915,106</u>	<u>\$ 3,292,266</u>
Earnings used in the computation of diluted earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 1,833,764</u>	<u>\$ 1,631,173</u>	<u>\$ 4,915,106</u>	<u>\$ 3,292,266</u>

Shares

(In Thousands of Shares)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
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>2,235</u>	<u>787</u>	<u>2,907</u>	<u>2,222</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>199,309</u>	<u>197,861</u>	<u>199,981</u>	<u>199,296</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.

25. SHARE-BASED PAYMENT

a. Employee share option plan

In accordance with employee share option plan approved in 2019, qualified employees of the Corporation and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Corporation. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Corporation's ordinary shares on the grant date. For any subsequent changes in the Corporation's capital surplus, the exercise price is adjusted accordingly. In addition, with the consent of the share option holders, the Corporation retracted and cancelled 6,000 thousand units of issued options on October 5, 2020.

Information on employee share options is as follows:

	For the Nine Months Ended September 30, 2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Options forfeited	<u>(42)</u>	\$ -
Balance at September 30	<u>5,958</u>	340
Options exercisable, end of period	<u>-</u>	-
Weighted-average fair value of options granted (\$)	<u>\$ 70.44</u>	

Information on outstanding options is as follows:

	September 30, 2020
Range of exercise price (\$)	\$324.35
Weighted-average remaining contractual life (in years)	2.25

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

	Input
Grant-date share price	\$340
Exercise price	\$340
Expected volatility	31.30%-31.79%
Expected dividend yield	-
Expected life	3 years
Risk-free interest rate	0.52%-0.53%

Compensation costs recognized were \$47,459 thousand and \$139,419 thousand for the three months and nine months ended September 30, 2020, respectively.

26. BUSINESS COMBINATIONS

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

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

a. Assets acquired and liabilities assumed at the date of acquisition

	July 1, 2020
Current assets	
Cash and cash equivalents	\$ 136,524
Accounts receivable, net	39,020
Inventories	6,120
Others	6,883
Non-current assets	
Financial assets at fair value through other comprehensive income	4,500
Land	185,930
Buildings, net	402,816
Mechanical equipment, net	43,151
Other equipment, net	47,936
Construction in progress	3,391
Intangible assets, net	646
Others	903
Current liabilities	
Short-term borrowings	(30,000)
Accounts payable	(2,676)
Other payables	(44,607)
Others	(9,446)
Non-current liabilities	
Long-term borrowings	(332,822)
Others	<u>(5,315)</u>
	<u>\$ 452,954</u>

b. Net cash outflow on the acquisition of subsidiaries

	July 1, 2020
Consideration paid in cash	\$ 452,954
Less: Cash and cash equivalent acquired	<u>(136,524)</u>
	<u>\$ 316,430</u>

27. CAPITAL MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

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, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 425,576	\$ -	\$ -	\$ 425,576
Domestic unlisted shares	-	-	333,529	333,529
Overseas unlisted shares	-	-	70,889	70,889
Domestic private equity funds	-	-	43,882	43,882
Beneficiary certificates - open-end funds	<u>2,836,569</u>	<u>-</u>	<u>-</u>	<u>2,836,569</u>
	<u>\$ 3,262,145</u>	<u>\$ -</u>	<u>\$ 448,300</u>	<u>\$ 3,710,445</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 151,198	\$ 151,198
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>317,256</u>	<u>317,256</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 468,454</u>	<u>\$ 468,454</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 529,538	\$ -	\$ -	\$ 529,538
Domestic unlisted shares	-	-	341,618	341,618
Overseas unlisted shares	-	-	72,280	72,280
Domestic private equity funds	-	-	45,408	45,408
Beneficiary certificates - open-end funds	2,816,597	-	-	2,816,597
Convertible bonds	<u>-</u>	<u>-</u>	<u>94,770</u>	<u>94,770</u>
	<u>\$ 3,346,135</u>	<u>\$ -</u>	<u>\$ 554,076</u>	<u>\$ 3,900,211</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 230,267	\$ 230,267
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>406,165</u>	<u>406,165</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 636,432</u>	<u>\$ 636,432</u>

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>

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2020 and 2019.

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

For the nine months ended September 30, 2020

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, 2020	\$ 45,408	\$ 94,770	\$ 413,898	\$ 636,432	\$ 1,190,508
Recognized in profit or loss	(1,526)	(2,391)	5,768	-	1,851
Recognized in other comprehensive income	-	-	-	485	485
Additions	-	-	3,892	3,825	7,717
Disposals and proceeds from return of capital of investments	-	(92,379)	(19,140)	(176,788)	(288,307)
Acquisitions through business combinations	-	-	-	4,500	4,500
Balance at September 30, 2020	<u>\$ 43,882</u>	<u>\$ -</u>	<u>\$ 404,418</u>	<u>\$ 468,454</u>	<u>\$ 916,754</u>

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	(291)	4,375	(5,522)	-	(1,438)
Recognized in other comprehensive income	-	-	-	253,793	253,793
Additions	-	92,379	27,277	33,160	152,816
Disposals and proceeds from return of capital of investments	-	-	-	(8,674)	(8,674)
Effects of foreign currency exchange differences	-	-	-	(3,172)	(3,172)
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>

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

- a) The fair values of convertible bonds are determined using the binary tree evaluation model and option pricing models where the significant unobservable input is historical volatility. As of December 31, 2019 and September 30, 2019, the historical volatilities used were 49.88% and 61.49%, 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 between the unlisted equity securities and analogous subjects into consideration, the values of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease in the discount for the lack of marketability used in isolation would result in an increase in fair value.

	September 30	
	2020	2019
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, 2020
Discount for non-controlling interest	15%
Discount for lack of marketability	15%
Sustainable revenue growth rates	1.37%
WACC	12%-16.31%

As of September 30, 2019, the Group did not hold any overseas unlisted equity securities, which fair values were determined by 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 values of the individual assets and individual liabilities of the evaluation target are evaluated. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests and the discount for a lack of marketability would result in increases in fair value.

	<u>September 30</u>	
	2020	2019
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets</u>			
Financial assets at FVTPL			
Mandatorily classified as FVTPL	\$ 3,710,445	\$ 3,900,211	\$ 3,907,936
Financial assets at amortized cost (Note 1)	19,116,921	16,629,078	16,274,030
Financial assets at FVTOCI			
Equity instruments	468,454	636,432	725,504
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 2)	8,734,529	8,040,922	6,720,630

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, other receivables, and guarantee deposits paid.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables, other payables, current portion of long-term borrowings, long-term borrowings, and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, notes and trade receivables, notes and 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 exposed 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.

For 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, refer to Note 33.

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 representing 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 strengthening 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	
	2020	2019
Profit or loss	\$ 308,843	\$ 419,179

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group held bank deposits at floating interest rates.

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

	September 30, 2020	December 31, 2019	September 30, 2019
Fair value interest rate risk			
Financial assets	\$ 3,703,222	\$ 2,589,358	\$ 1,985,740
Financial liabilities	783,171	33,222	35,173
Cash flow interest rate risk			
Financial assets	9,578,131	7,672,079	7,527,331
Financial liabilities	233,672	-	-

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, 2020 and 2019 would increase by \$701 thousand and \$565 thousand, respectively.

c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the nine months ended September 30, 2020 and 2019 would have increased/decreased by \$37,104 thousand and \$39,079 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, 2020 and 2019 would have increased/decreased by \$4,685 thousand and \$7,255 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.

a) Financing facilities

	September 30, 2020	December 31, 2019	September 30, 2019
Unsecured bank facilities:			
Amount used	\$ 1,917,500	\$ 1,660,000	\$ 1,660,000
Amount unused	<u>7,940,500</u>	<u>7,858,400</u>	<u>7,958,200</u>
	<u>\$ 9,858,000</u>	<u>\$ 9,518,400</u>	<u>\$ 9,618,200</u>
Secured bank facilities:			
Amount used	\$ 233,672	\$ -	\$ -
Amount unused	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 233,672</u>	<u>\$ -</u>	<u>\$ -</u>

b) Liquidity and interest rate risk tables 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, 2020				
	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	\$ 2,927,636	\$ 1,711,877	\$ 3,272,348	\$ -	\$ -
Fixed interest rate liabilities	757,870	-	-	-	-
Variable interest rate liabilities	2,806	5,611	25,252	134,676	78,561
Lease liabilities	<u>1,098</u>	<u>2,197</u>	<u>9,217</u>	<u>13,782</u>	<u>-</u>
	<u>\$ 3,689,410</u>	<u>\$ 1,719,685</u>	<u>\$ 3,306,817</u>	<u>\$ 148,458</u>	<u>\$ 78,561</u>
	December 31, 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	\$ 3,172,708	\$ 1,995,386	\$ 3,475,408	\$ -	\$ -
Lease liabilities	<u>1,110</u>	<u>2,220</u>	<u>9,934</u>	<u>21,433</u>	<u>-</u>
	<u>\$ 3,173,818</u>	<u>\$ 1,997,606</u>	<u>\$ 3,485,342</u>	<u>\$ 21,433</u>	<u>\$ -</u>

	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>

e. Information on transfers of financial assets

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

29. 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 party
Kioxia America, Inc.	Other related party (Note 1)
Kioxia Corporation	Other related party (Note 2)
Kioxia Taiwan Corporation	Other related party (Note 3)
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
Super Storage Technology Corporation	Other related party (Note 4)
Solid State Storage Technology Corporation Hsinchu Science Park Branch	Other related party
Kingston Solutions Inc.	Associate (Note 5)
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Shenzhen EpoStar Electronics Limited Co.	Associate (Note 6)
HOSIN Global Electronics Co., Ltd. (HK)	Associate
Hefei Datang Storage Technology Co., Ltd.	Associate
SiliTai Electronics Co., Limited	Associate
HOSIN Global Electronics Co., Ltd. (SZ)	Associate
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Associate
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 Memory Corporation was renamed as Kioxia Corporation on October 1, 2019.

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

Note 4: Starting from July 1, 2020, Super Storage Technology Corporation became a subsidiary of the Group.

Note 5: Starting from September 4, 2020, Kingston Solutions Inc. was no longer a related party of the Group.

Note 6: Starting from February 26, 2020, Shenzhen EpoStar Electronics Limited Co. was no longer a related party of the Group.

b. Operating revenue

Related Party Category/Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Associates	\$ 279,842	\$ 406,338	\$ 886,037	\$ 844,094
Other related parties	<u>660,596</u>	<u>522,599</u>	<u>1,584,372</u>	<u>1,571,382</u>
	<u>\$ 940,438</u>	<u>\$ 928,937</u>	<u>\$ 2,470,409</u>	<u>\$ 2,415,476</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/Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Associates	\$ 40,061	\$ 303,554	\$ 269,627	\$ 716,672
Other related parties				
Kioxia Taiwan Corporation	2,370,834	1,235,997	7,215,651	9,147,639
Others	<u>174,069</u>	<u>226,070</u>	<u>718,383</u>	<u>939,611</u>
	<u>\$ 2,584,964</u>	<u>\$ 1,765,621</u>	<u>\$ 8,203,661</u>	<u>\$ 10,803,922</u>

2) Processing costs

Related Party Category/Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Associates	\$ 17	\$ 341	\$ 42	\$ 432
Other related parties	<u>380,262</u>	<u>567,788</u>	<u>1,462,869</u>	<u>1,834,300</u>
	<u>\$ 380,279</u>	<u>\$ 568,129</u>	<u>\$ 1,462,911</u>	<u>\$ 1,834,732</u>

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

d. Receivables from related parties

Related Party Category/Name	September 30, 2020	December 31, 2019	September 30, 2019
Associates	\$ 96,003	\$ 246,653	\$ 293,128
Other related parties	<u>506,482</u>	<u>290,496</u>	<u>371,556</u>
	<u>\$ 602,485</u>	<u>\$ 537,149</u>	<u>\$ 664,684</u>

The outstanding trade receivables from related parties are unsecured. No bad debt expense was recognized for the allowance for impaired trade receivables with respect to the amounts owed by related parties.

e. Payables to related parties

Related Party Category/Name	September 30, 2020	December 31, 2019	September 30, 2019
Associates	\$ 246	\$ 29,796	\$ 38,456
Other related parties			
Kioxia Taiwan Corporation	1,018,324	1,034,293	644,062
Others	<u>166,248</u>	<u>320,008</u>	<u>367,445</u>
	<u>\$ 1,184,818</u>	<u>\$ 1,384,097</u>	<u>\$ 1,049,963</u>

The outstanding trade payables to related parties are unsecured.

f. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 81,344	\$ 77,587	\$ 398,016	\$ 170,943
Post-employment benefits	796	689	2,327	1,897
Share-based payments	19,201	-	58,110	-
Other employee benefits	<u>1,182</u>	<u>1,357</u>	<u>5,168</u>	<u>3,274</u>
	<u>\$ 102,523</u>	<u>\$ 79,633</u>	<u>\$ 463,621</u>	<u>\$ 176,114</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

1) Hefei Core Storage Electronic Limited

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. As of September 30, 2020, their shareholding percentages were both 0.68%.

2) Phisontech Electronics Taiwan Corp.

On February 11, 2020, the Group purchased Phisontech Electronics Taiwan Corp.'s 54,000 thousand ordinary shares for \$540,000 thousand through capital increase by cash. As of September 30, 2020, the Group's shareholding percentage in Phisontech Electronics Taiwan Corp. was 100%.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	September 30, 2020	December 31, 2019	September 30, 2019
Refundable deposits for customs duties - certificates of deposit (financial assets at amortized cost - current)	<u>\$ 40,409</u>	<u>\$ 20,383</u>	<u>\$ 20,383</u>
Buildings	<u>\$ 399,619</u>	<u>\$ -</u>	<u>\$ -</u>

31. 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, 2020, December 31, 2019 and September 30, 2019 were as follows:

Significant Commitments

	September 30, 2020	December 31, 2019	September 30, 2019
Unused letters of credit	<u>\$ 1,160,000</u>	<u>\$ 1,660,000</u>	<u>\$ 1,660,000</u>

32. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On August 4, 2020, The board of directors resolved the proposal that Core Storage Electronic (Samoa) Limited, a subsidiary of the Corporation, will dispose 46.48% ownership of Hefei Core Storage Electronic Limited at CNY6 per contribution (the disposed amount of contribution is CNY103,000 thousand), and the expected disposal amount is CNY618,000 thousand. The transaction was settled on November 10, 2020.

In addition, Core Storage Electronics (Samoa) Limited plans to participate in 54,500 thousand shares capital increase of Hosin Global Electronics Co., Ltd. with 24.59% ownership (the amount of contribution is CNY54,500 thousand) in Hefei Core Storage Electronic Limited. The transaction is in process in accordance with regulations.

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

In Thousands of New Taiwan Dollars and Foreign Currencies

	September 30, 2020		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD (USD:NTD)	\$ 262,944	29.1000	\$ 7,651,684
USD (USD:CNY)	4,922	6.8101	143,241
CNY (CNY:NTD)	35,441	4.2690	151,298
<u>Financial liabilities</u>			
Monetary items			
USD (USD:NTD)	90,981	29.1000	2,647,537
	December 31, 2019		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD (USD:NTD)	\$ 255,830	29.9800	\$ 7,669,784
USD (USD:CNY)	9,023	6.9762	270,504
CNY (CNY:NTD)	34,065	4.3050	146,651
<u>Financial liabilities</u>			
Monetary items			
USD (USD:NTD)	85,796	29.9800	2,572,158
	September 30, 2019		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
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 items			
USD (USD:NTD)	64,140	31.0400	1,990,915

For the three months and nine months ended September 30, 2020 and 2019, net realized and unrealized (losses) gains on foreign exchange were \$(128,506) thousand, \$(16,249) thousand, \$(173,449) thousand and \$52,560 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

34. OTHER SIGNIFICANT EVENTS

- a. When considering the impact of the COVID-19 pandemic, the Group assessed that the pandemic had no significant influence on its finance and operations, and there were no doubts about its ability to continue as a going concern in relation to the recognition of an impairment loss and the risk of financing.
- b. The Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. The Corporation evaluated that its finance and operations had not yet been affected. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center (“Investors Protection Center”) had filed two civil actions respectively as follows: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim compensation damage of \$697,389 thousand against the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation has already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. With regard to the aforementioned civil actions filed by Investors Protection Center, the possible consequences or developments resulting from litigations could not be assessed by the Corporation, but it was considered to have no significant influence to its finance and operations at the present stage.

35. ADDITIONAL DISCLOSURES

- a. Information about significant transactions:
 - 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 or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 2)
 - 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 3)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
 - 9) Trading in derivative instruments. (None)
 - 10) Other: Intercompany relationships and significant intercompany transactions. (Table 5)
- b. Information of investees. (Table 6)
- c. Information on investments in mainland China:
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 7)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 8)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 8)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes. (None)
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
 - 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. (None)
- d. Information of major shareholders : List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder. (Table 9)

36. SEGMENT INFORMATION

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

a. Segment revenue and results

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

	Segment Revenue		Segment Profits (Loss)	
	For the Three Months Ended		For the Three Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Department that designs and sells flash memory controllers	\$ 11,933,997	\$ 12,393,903	\$ 1,140,624	\$ 1,734,737
Investment department	-	-	(360)	(1,299)
Total operating segments	<u>\$ 11,933,997</u>	<u>\$ 12,393,903</u>	1,140,264	1,733,438
Other gains and losses			765,465	23,498
Share of profits of associates			39,312	2,666
Interest income			6,549	9,507
Other income			77,838	126,954
Financial costs			<u>(1,383)</u>	<u>(570)</u>
Profit before tax			<u>\$ 2,028,045</u>	<u>\$ 1,895,493</u>

	Segment Revenue		Segment Profit (Loss)	
	For the Nine Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Department that designs and sells flash memory controllers	\$ 35,655,549	\$ 31,520,047	\$ 4,003,843	\$ 3,868,483
Investment department	-	-	(1,080)	(1,620)
Total operating segments	<u>\$ 35,655,549</u>	<u>\$ 31,520,047</u>	4,002,763	3,866,863
Other gains and losses			697,138	132,983
Share of profits (losses) of associates			461,866	(325,600)
Interest income			35,221	40,211
Other income			194,770	199,310
Financial costs			<u>(2,406)</u>	<u>(1,768)</u>
Profit before tax			<u>\$ 5,389,352</u>	<u>\$ 3,911,999</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the nine months ended September 30, 2020 and 2019.

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.

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

SEPTEMBER 30, 2020

(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, 2020				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 206,338	-	\$ 206,338	Note 3
	FSITC Taiwan Money Market Fund	-	Same as above	13,369	206,146	-	206,146	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Same as above	20,685	215,502	-	215,502	Note 3
	Yuanta De-Li Money Market Fund	-	Same as above	9,298	152,731	-	152,731	Note 3
	Jih Sun Money Market Fund	-	Same as above	13,767	205,601	-	205,601	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	16,113	203,389	-	203,389	Note 3
	CTBC Hwa-win Money Market Fund	-	Same as above	18,239	202,442	-	202,442	Note 3
	Prudential Financial Money Market Fund	-	Same as above	12,070	192,394	-	192,394	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Same as above	11,087	151,910	-	151,910	Note 3
	Taishin 1699 Money Market Fund	-	Same as above	14,809	201,902	-	201,902	Note 3
	Taishin Ta-Chong Money Market Fund	-	Same as above	14,102	201,787	-	201,787	Note 3
	TCB Taiwan Money Market Fund	-	Same as above	19,716	201,698	-	201,698	Note 3
	Capital Money Market Fund	-	Same as above	12,416	201,789	-	201,789	Note 3
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	74,831	1.32	74,831	Note 4
	Apacer Technology Inc.	-	Same as above	10,050	350,745	9.96	350,745	Note 4
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	17,331	0.67	17,331	Note 5
	AppWorks Fund II Co., Ltd.	-	Same as above	7,500	221,400	11.11	221,400	Note 5
	Innorich Venture Capital Corp.	-	Same as above	3,000	18,526	5.61	18,526	Note 5
	AppWorks Fund I Co., Ltd.	-	Same as above	728	11,789	18.75	11,789	Note 5
	Acer Synergy Tech Corp.	-	Same as above	900	31,814	8.09	31,814	Note 5
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Same as above	50,000	50,000	1.08	50,000	Note 6
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	529	-	0.60	-	-
	Adam Elements International Co., Ltd.	-	Same as above	1,710	24,660	19.00	24,660	Note 5
	THLight Co., Ltd.	-	Same as above	6,388	-	13.19	-	-
	UD INFO Corp.	-	Same as above	963	94,930	17.65	94,930	Note 5
	GeoThings, Inc.	-	Same as above	150	-	5.36	-	-
	Ironyun Incorporated (preference shares)	-	Same as above	5,000	-	5.64	-	-
	Gospal Ltd.	-	Same as above	811,857	2,466	3.40	2,466	Note 5
	H3 Platform, Inc.	-	Same as above	18,400	13,487	12.14	13,487	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Same as above	11,966	30,906	17.16	30,906	Note 5
	Gomore Inc.	-	Same as above	16,925	9,690	3.39	9,690	Note 5
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Same as above	6,000	43,882	3.81	43,882	Note 5

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2020				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	\$ 30,625	-	\$ 30,625	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	2,424	30,599	-	30,599	Note 3
	<u>Common shares</u>							
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	39,437	1.18	39,437	Note 5
	Translink Capital Partners IV L.P.	-	Same as above	560	14,121	0.59	14,121	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	226,643	6.70	226,643	Note 6
	UMBO CV Inc. (preference shares)	-	Same as above	1,626	18,790	2.34	18,790	Note 6
	Omni Media International Incorporation	-	Same as above	1,714	23,283	2.60	23,283	Note 5
	RENIA, INC. (preference shares)	-	Same as above	302	15,274	1.97	15,274	Note 5
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	3,980	50,295	-	50,295	Note 3
	FSITC Money Market	-	Same as above	280	50,264	-	50,264	Note 3
	Taishin Ta-Chong Money Market Fund	-	Same as above	3,513	50,267	-	50,267	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	815	10,284	-	10,284	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Same as above	5,816	60,591	-	60,591	Note 3
	<u>Common shares</u>							
My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-	
Phisontech Electronics Taiwan Corp.	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Money Market	-	Financial assets at FVTPL - current	56	10,015	-	10,015	Note 3
Super Storage Technology Corporation	<u>Common shares</u>							
United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	833	8,325	13.88	8,325	Note 6	

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, 2020.

Note 4: The calculation of the market value was based on the closing price as of September 30, 2020.

Note 5: Refer to Note 28 (b)-3 for market value information.

Note 6: The calculation of the market value was based on the most recent acquisition price.

Note 7: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance (Note)		Acquisition		Disposal				Ending Balance (Note)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
The Corporation	Phisontech Electronics Taiwan Corp.	Investments accounted for using the equity method	Subsidiary	Subsidiary	1,000	\$ 40,518	54,000	\$ 540,000	-	\$ -	\$ -	\$ -	55,000	\$ 589,217
	Kingston Solutions Inc.	Same as above	Kingston Technology Corporation	Non-related parties	10,605	965,294	-	-	10,605	1,781,640	1,072,154	967,348	-	-
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Same as above	Corporations and individuals	Non-related parties	-	-	34,843	452,954	-	-	-	-	34,843	465,166

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

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, 2020
(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	
The Corporation	Kingston Solutions Inc.	Investee company accounted for using the equity method	Purchase	\$ 170,286	1	Net 30 days after monthly closing	None	None	\$ -	-	1
	Kioxia America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	710,063	3	Net 30 days after receipt date	None	None	-	-	-
	Kioxia Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	7,215,651	34	Net 30 days after monthly closing	None	None	(1,018,324)	(36)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,293,259	5	Net 30 days after monthly closing	None	None	(165,468)	(6)	-
	Super Storage Technology Corporation	Sub-subsiary	Processing cost	169,610	1	Net 30 days after monthly closing	None	None	-	-	2
	Kioxia Corporation	The Corporation's legal entity board of directors	Sale	(560,498)	(2)	Net 60 days after monthly closing	None	None	105,632	2	-
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The sub-subsiary of the Corporation's legal entity board of directors	Sale	(180,419)	(1)	Net 90 days after receipt date	None	None	189,707	3	-
	Kingston Solutions Inc.	Investee company accounted for using the equity method	Sale	(464,146)	(1)	Net 60 days after monthly closing	None	None	-	-	1
	Apacer Technology Inc.	The Corporation is its director	Sale	(784,235)	(2)	Net 45 days after monthly closing	None	None	205,295	4	-
	Hefei Core Storage Electronic Limited	Sub-subsiary	Sale	(579,074)	(2)	Net 30 days after monthly closing	None	None	115,907	2	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsiary's associate	Sale	(200,018)	(1)	Net 60 days after receipt date	None	None	8,367	-	-

Note 1: Starting from September 2020, Kingston Solutions Inc. was no longer a related party of the Group.

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

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, 2020

(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		
The Corporation	Apacer Technology Inc.	The Corporation is its director	\$ 205,295	5.39	\$ -	-	\$ 92,232	\$ -
	Kioxia Corporation	The Corporation's legal entity board of directors	105,632	8.41	-	-	54,109	-
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The sub-subsiidiary of the corporation's legal entity board of directors	189,707	4.21	-	-	-	-
	Hefei Core Storage Electronic Limited	Sub-subsiidiary	115,907	12.94	-	-	114,505	-

Note: As of October 31, 2020.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number	Company Name	Counterparty	Flow of Transaction (Note)	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	The Corporation	Hefei Core Storage Electronic Limited	1	Sales revenue	\$ 579,074	Based on regular terms	2
			1	Accounts receivable	115,907	Based on regular terms	-
			1	Research expenses	136,759	Based on regular terms	-
			1	Other payables	49,004	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	24,389	Based on regular terms	-
			1	Accounts payable	1,764	Based on regular terms	-
		Super Storage Technology Corporation	1	Manufacturing expenses	90,209	Based on regular terms	-
			1	Accounts payable	46,314	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	13,229	Based on regular terms	-
			1	Other payables	4,599	Based on regular terms	-
		Phison Technology Inc.	1	Sales expenses	91,278	Based on regular terms	-

Note: Parent company to subsidiary: 1.

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 30, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
The Corporation	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ -	\$ 106,050	-	-	\$ -	\$ 324,705	\$ 106,860	Investee company accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	333,019	(20,837)	(20,837)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	712,566	(2,989)	(2,989)	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	23,734	(1,366)	(669)	Investee company accounted for using the equity method
	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	581,363	41,363	55,000,000	100.00	589,217	8,648	8,699	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	32,527	856	856	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	1,158,472	1,158,472	37,100,000	100.00	1,151,835	7,043	7,043	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	31,972	91,422	1,654,047	100.00	1,439	696	696	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	44.21	264,166	621,076	269,603	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	96,356	(126)	(126)	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	132,871	79,270	79,270	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,996	393,214	21,900,000	100.00	828,210	53,219	53,219	Subsidiary
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	-	2,785,000	33.55	89,061	28,002	9,395	Investee company accounted for using the equity method
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	81,232	-	5,880	49.00	94,047	29,714	14,560	Investee company accounted for using the equity method

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 30, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	\$ 9,000	\$ 9,000	900,000	100.00	\$ 30,627	\$ 1,714	\$ -	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Development and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	18,312	1,053	-	Investee company accounted for using the equity method
Emtops Electronics Corporation	Phison Technology Inc.	USA	Sales and service office	90,419	31,415	3,000,000	100.00	70,100	(19,264)	-	Sub-subsidiary
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	-	34,842,595	100.00	465,166	12,213	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	1,068,818	1,068,818	34,150,000	100.00	1,122,126	8,742	-	Sub-subsidiary
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	90,639	41	-	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Manufacture and sale of flash memory related products	191,986	391,986	20,950,000	100.00	88,532	78,316	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	391,989	21,850,000	100.00	832,075	53,304	-	Sub-subsidiary

(Concluded)

TABLE 7

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(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, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2020	Percentage of Ownership (%)	Share of Profit (Loss) (Note 2)	Carrying Amount as of September 30, 2020	Accumulated Inward Remittance of Earnings as of September 30, 2020	Note
					Outflow	Inflow						
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	b	\$ 53,096	\$ -	\$ -	\$ 53,096	95.49	\$ (2,189)	\$ 4,025	\$ -	b (2)
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic product and technical support service and rendering of related services	1,059,715	b	1,063,215	-	-	1,063,215	95.49	158,444	1,264,067	-	b (2)
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	b	182,825	-	-	182,825	100.00	(5,128)	165,100	-	b (1)
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and rendering of related services and investment	280,387	b	-	-	-	-	95.49	114,014	375,590	-	b (2)
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	b	-	-	-	-	47.37	(12,538)	308,556	-	b (1), b (2)
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	613,690	b	183,640	259,140	-	442,780	36.76	74,304	484,745	-	b (1)

Accumulated Investments in Mainland China as of September 30, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 1,741,916 (US\$ 56,332)	\$ 1,768,461 (US\$ 57,390)	\$ 18,873,919

(Continued)

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 the unreviewed financial statements for the same period.

(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, 2020
 (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	
The Corporation	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	\$ 579,074	2	Net 30 days after monthly closing	None	None	\$ 115,907	2	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the second-tier subsidiary's associate	Sale	200,018	1	Net 60 days after receipt date	None	None	8,367	-	-
	Hosin Global Electronics Co., Ltd. (SZ)	The reinvestment of the second-tier subsidiary	Sale	10,764	-	Net 45 days after monthly closing	None	None	4,802	-	-
Hefei Core Storage Electronic Limited	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the second-tier subsidiary's associate	Sale	1,326	-	Net 30 days after receipt date	None	None	-	-	-

PHISON ELECTRONICS CORP.**INFORMATION OF MAJOR SHAREHOLDERS
SEPTEMBER 30, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Trust Investment Account of KIOXIA Corporation by First Bank	19,821,112	10.05

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Corporation as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.