

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 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 June 30, 2020 and 2019, the consolidated statements of comprehensive income for the three months ended June 30, 2020 and 2019 and for the six months ended June 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the six months ended June 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 June 30, 2020 and 2019, the combined assets of these subsidiaries were 10% (NT\$4,246,935 thousand) and 8% (NT\$3,145,111 thousand) of the Group's assets, respectively, and the combined liabilities of these subsidiaries were 3% (NT\$327,622 thousand) and 4% (NT\$453,801 thousand) of the Group's liabilities, respectively. For the three months and the six months ended June 30, 2020 and 2019, these subsidiaries' comprehensive income were 7% (a gain of NT\$84,155 thousand), 12% (a gain of NT\$92,876 thousand), 4% (a gain of NT\$124,134 thousand), and 7% (a gain of NT\$115,250 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 June 30, 2020 and 2019 amounted to NT\$2,189,397 thousand and NT\$1,461,059 thousand, respectively, and the share of profit (loss) of these associates accounted for using the equity method for the three months and the six months ended June 30, 2020 and 2019 amounted to a loss of NT\$12,054 thousand, a loss of NT\$148,399 thousand, a gain of NT\$422,554

thousand, and a loss of NT\$328,266 thousand, respectively. As stated in Note 34 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 June 30, 2020 and 2019, its consolidated financial performance for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019, and its consolidated cash flows for the six months ended June 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 33 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, 2019, 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

August 13, 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	June 30, 2020 (Reviewed)		December 31, 2019 (Audited)		June 30, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 11,468,151	28	\$ 10,205,257	27	\$ 11,740,735	31
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 27)	3,357,145	8	3,440,905	9	3,220,176	9
Financial assets at amortized cost (Notes 9 and 29)	75,567	-	56,273	-	57,658	-
Notes and accounts receivable						
Non-related parties (Note 10)	4,607,248	11	5,396,821	14	4,537,116	12
Related parties (Notes 10 and 28)	543,862	1	537,149	1	439,168	1
Other receivables (Note 10)	312,678	1	427,082	1	294,465	1
Current tax assets	48,829	-	45,499	-	31,101	-
Inventories (Note 11)	13,062,056	32	11,532,724	30	10,957,107	29
Prepayments	74,962	-	282,396	1	533,595	1
Other current assets	90,812	-	35,733	-	72,568	-
Total current assets	33,641,310	81	31,959,839	83	31,883,689	84
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 27)	422,936	1	459,306	1	439,556	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Notes 8 and 27)	553,479	2	636,432	2	570,759	2
Investments accounted for using the equity method (Note 13)	2,189,397	5	1,644,159	4	1,461,059	4
Property, plant and equipment (Note 14)	3,713,865	9	3,282,950	8	2,992,078	8
Right-of-use assets (Note 15)	39,818	-	32,840	-	37,449	-
Intangible assets (Note 16)	261,086	1	268,026	1	148,334	-
Deferred tax assets	474,518	1	346,732	1	283,861	1
Guarantee deposits paid	13,419	-	6,496	-	5,010	-
Total non-current assets	7,668,518	19	6,676,941	17	5,938,106	16
TOTAL	\$ 41,309,828	100	\$ 38,636,780	100	\$ 37,821,795	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Contract liabilities	\$ 35,911	-	\$ 130,615	-	\$ 52,739	-
Notes and accounts payable						
Non-related parties	1,658,170	4	2,258,562	6	2,176,690	6
Related parties (Note 28)	840,115	2	1,384,097	4	2,598,250	7
Other payables (Note 17)	7,374,651	18	4,398,129	11	5,807,318	15
Tax payable	617,427	1	602,714	2	627,004	2
Lease liabilities (Note 15)	15,071	-	12,520	-	11,359	-
Other current liabilities (Note 18)	691,755	2	519,744	1	267,105	1
Total current liabilities	11,233,100	27	9,306,381	24	11,540,465	31
NON-CURRENT LIABILITIES						
Deferred tax liabilities	103,436	1	21,930	-	-	-
Lease liabilities (Note 15)	25,040	-	20,702	-	26,109	-
Long-term deferred revenue	3,833	-	4,060	-	8,712	-
Net defined benefit liabilities (Note 19)	95,528	-	94,945	-	93,168	-
Guarantee deposits received	134	-	134	-	144	-
Total non-current liabilities	227,971	1	141,771	-	128,133	-
Total liabilities	11,461,071	28	9,448,152	24	11,668,598	31
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 20 and 25)						
Share capital						
Common shares	1,970,740	5	1,970,740	5	1,970,740	5
Capital surplus	6,848,575	17	6,724,104	17	6,695,551	18
Retained earnings						
Legal reserve	4,306,531	10	3,850,715	10	3,850,715	10
Special reserve	176,125	1	380,927	1	380,927	1
Unappropriated earnings	16,670,607	40	16,411,959	43	13,514,896	36
Total retained earnings	21,153,263	51	20,643,601	54	17,746,538	47
Other equity	(177,233)	(1)	(176,125)	-	(286,757)	(1)
Total equity attributable to owners of the Corporation	29,795,345	72	29,162,320	76	26,126,072	69
NON-CONTROLLING INTERESTS	53,412	-	26,308	-	27,125	-
Total equity	29,848,757	72	29,188,628	76	26,153,197	69
TOTAL	\$ 41,309,828	100	\$ 38,636,780	100	\$ 37,821,795	100

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

(With Deloitte & Touche auditors' review report dated August 13, 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 June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Note 28)								
Gross sales	\$ 10,904,792	101	\$ 9,687,269	99	\$ 24,041,541	101	\$ 19,069,691	100
Less: Sales returns and allowances	<u>72,005</u>	<u>1</u>	<u>42,665</u>	<u>-</u>	<u>388,049</u>	<u>1</u>	<u>142,968</u>	<u>1</u>
Net sales	10,832,787	100	9,644,604	99	23,653,492	100	18,926,723	99
Other operating revenue	<u>22,062</u>	<u>-</u>	<u>138,524</u>	<u>1</u>	<u>68,060</u>	<u>-</u>	<u>199,421</u>	<u>1</u>
Total operating revenue	10,854,849	100	9,783,128	100	23,721,552	100	19,126,144	100
OPERATING COSTS (Notes 11, 22 and 28)	<u>8,167,396</u>	<u>75</u>	<u>7,607,051</u>	<u>78</u>	<u>17,119,381</u>	<u>72</u>	<u>14,855,374</u>	<u>78</u>
UNREALIZED GAIN ON TRANSACTIONS	<u>(14,603)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>2,672,850</u>	<u>25</u>	<u>2,176,077</u>	<u>22</u>	<u>6,538,471</u>	<u>28</u>	<u>4,270,770</u>	<u>22</u>
OPERATING EXPENSES (Note 22)								
Marketing	137,573	1	122,743	1	305,447	1	243,421	1
General and administrative	164,153	2	119,509	1	364,002	2	239,754	1
Research and development	1,239,045	11	859,660	9	2,986,986	13	1,724,306	9
Expected credit losses (reversal gains) (Note 10)	<u>52,220</u>	<u>1</u>	<u>8,287</u>	<u>-</u>	<u>19,537</u>	<u>-</u>	<u>(70,136)</u>	<u>-</u>
Total operating expenses	<u>1,592,991</u>	<u>15</u>	<u>1,110,199</u>	<u>11</u>	<u>3,675,972</u>	<u>16</u>	<u>2,137,345</u>	<u>11</u>
OPERATING INCOME	<u>1,079,859</u>	<u>10</u>	<u>1,065,878</u>	<u>11</u>	<u>2,862,499</u>	<u>12</u>	<u>2,133,425</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)								
Other income	81,469	1	48,568	1	116,932	-	72,356	1
Other gains and losses	(37,794)	(1)	(6,247)	-	(68,327)	-	109,485	1
Financial costs	(457)	-	(941)	-	(1,023)	-	(1,198)	-
Interest income	12,234	-	16,729	-	28,672	-	30,704	-
Share of (losses) profits of associates (Note 13)	<u>(12,054)</u>	<u>-</u>	<u>(148,399)</u>	<u>(2)</u>	<u>422,554</u>	<u>2</u>	<u>(328,266)</u>	<u>(2)</u>
Total non-operating income and expenses	<u>43,398</u>	<u>-</u>	<u>(90,290)</u>	<u>(1)</u>	<u>498,808</u>	<u>2</u>	<u>(116,919)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,123,257	10	975,588	10	3,361,307	14	2,016,506	11
INCOME TAX (BENEFIT) EXPENSE (Note 21)	<u>(61,501)</u>	<u>(1)</u>	<u>194,522</u>	<u>2</u>	<u>278,397</u>	<u>1</u>	<u>353,617</u>	<u>2</u>
NET PROFIT FOR THE PERIOD	<u>1,184,758</u>	<u>11</u>	<u>781,066</u>	<u>8</u>	<u>3,082,910</u>	<u>13</u>	<u>1,662,889</u>	<u>9</u>

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF INCOME TAX								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	\$ 78,046	-	\$ 10,378	-	\$ 21,041	-	\$ 86,522	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	(30,396)	-	(11,694)	-	(40,940)	-	9,212	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 21)	5,916	-	2,269	-	7,967	-	(1,912)	-
Other comprehensive income (loss) for the period, net of income tax	53,566	-	953	-	(11,932)	-	93,822	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ 1,238,324	11	\$ 782,019	8	\$ 3,070,978	13	\$ 1,756,711	9
NET PROFIT ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,183,293	11	\$ 779,270	8	\$ 3,081,342	13	\$ 1,661,093	9
Non-controlling interests	1,465	-	1,796	-	1,568	-	1,796	-
	<u>\$ 1,184,758</u>	<u>11</u>	<u>\$ 781,066</u>	<u>8</u>	<u>\$ 3,082,910</u>	<u>13</u>	<u>\$ 1,662,889</u>	<u>9</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,237,678	11	\$ 780,571	8	\$ 3,070,516	13	\$ 1,755,263	9
Non-controlling interests	646	-	1,448	-	462	-	1,448	-
	<u>\$ 1,238,324</u>	<u>11</u>	<u>\$ 782,019</u>	<u>8</u>	<u>\$ 3,070,978</u>	<u>13</u>	<u>\$ 1,756,711</u>	<u>9</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 23)								
Basic	<u>\$6.00</u>		<u>\$3.96</u>		<u>\$15.64</u>		<u>\$8.43</u>	
Diluted	<u>\$5.99</u>		<u>\$3.94</u>		<u>\$15.46</u>		<u>\$8.36</u>	

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

(With Deloitte & Touche auditors' review report dated August 13, 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 the 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							
			Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2019	\$ 1,970,740	\$ 6,674,650	\$ 3,418,903	\$ -	\$ 15,228,504	\$ (67,908)	\$ (313,019)	\$ 26,911,870	\$ -	\$ 26,911,870
Appropriation of the 2018 earnings										
Legal reserve	-	-	431,812	-	(431,812)	-	-	-	-	-
Special reserve	-	-	-	380,927	(380,927)	-	-	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	27,298	27,298
Changes in percentage of ownership interests in subsidiaries	-	1,621	-	-	-	-	-	1,621	(1,621)	-
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	19,280	-	-	-	-	-	19,280	-	19,280
Net profit for the six months ended June 30, 2019	-	-	-	-	1,661,093	-	-	1,661,093	1,796	1,662,889
Other comprehensive income (loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	7,648	86,522	94,170	(348)	93,822
BALANCE AT JUNE 30, 2019	\$ 1,970,740	\$ 6,695,551	\$ 3,850,715	\$ 380,927	\$ 13,514,896	\$ (60,260)	\$ (226,497)	\$ 26,126,072	\$ 27,125	\$ 26,153,197
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										
Legal reserve	-	-	455,816	-	(455,816)	-	-	-	-	-
Reversal of special reserve	-	-	-	(204,802)	204,802	-	-	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	26,195	26,195
Changes in percentage of ownership interests in subsidiaries	-	(447)	-	-	-	-	-	(447)	447	-
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	32,958	-	-	-	-	-	32,958	-	32,958
Recognition of employee share options	-	91,960	-	-	-	-	-	91,960	-	91,960
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(9,718)	-	9,718	-	-	-
Net profit for the six months ended June 30, 2020	-	-	-	-	3,081,342	-	-	3,081,342	1,568	3,082,910
Other comprehensive income (loss) for the six months ended June 30, 2020, net of income tax	-	-	-	-	-	(31,867)	21,041	(10,826)	(1,106)	(11,932)
BALANCE AT JUNE 30, 2020	\$ 1,970,740	\$ 6,848,575	\$ 4,306,531	\$ 176,125	\$ 16,670,607	\$ (144,366)	\$ (32,867)	\$ 29,795,345	\$ 53,412	\$ 29,848,757

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

(With Deloitte & Touche auditors' review report dated August 13, 2020)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended	
	June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,361,307	\$ 2,016,506
Adjustments for:		
Depreciation	175,401	134,196
Amortization	94,330	83,037
Recognized (reversed) expected credit losses	19,537	(70,136)
Financial costs	1,023	1,198
Interest income	(28,672)	(30,704)
Dividend income	(53,155)	(12,203)
Compensation costs of employee share options	91,960	-
Share of (gains) losses of associates	(422,554)	328,266
Gains on disposal of property, plant and equipment	(4)	(1,471)
Loss on disposal of associates	1,109	-
Write-down of inventories	285,803	16,092
Unrealized gain on transactions with associates	63,700	-
Net loss (gain) on foreign currency exchange	34,323	(18,144)
Gains on modification of lease	(262)	-
Recognition of refund liabilities	283,658	54,567
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	22,503	(39,292)
Notes and accounts receivable	732,084	312,861
Other receivables	166,770	(21,463)
Inventories	(1,814,960)	(3,396,497)
Prepayments	190,036	(498,296)
Other current assets	(55,079)	31,703
Contract liabilities	(94,704)	18,469
Notes and accounts payable	(1,134,198)	(4,618)
Other payables	432,283	(474,793)
Deferred revenue	(227)	(5,356)
Other current liabilities	(86,775)	(116,044)
Net defined benefit liabilities	583	341
Cash generated from (used in) operations	2,265,820	(1,691,781)
Interest paid	(1,023)	(1,198)
Income tax paid	(313,294)	(231,418)
Net cash generated from (used in) operating activities	<u>1,951,503</u>	<u>(1,924,397)</u>

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	\$ -	\$ (33,160)
Proceeds from sale of financial assets at fair value through other comprehensive income	71,936	-
Proceeds of the capital reduction of financial assets at fair value through profit or loss	19,140	-
Purchase of financial assets at amortized cost	(19,294)	-
Proceeds from sale of financial assets at amortized cost	-	9,559
Purchase of financial assets at fair value through profit or loss	(13,892)	(118,102)
Proceeds from sale of financial assets at fair value through profit or loss	92,379	3,259
Acquisition of associates	(136,495)	(275,963)
Payments for property, plant and equipment	(605,253)	(113,193)
Proceeds from disposal of property, plant and equipment	19	1,471
(Increase) decrease in refundable deposits	(6,923)	1,940
Payments for intangible assets	(87,408)	(78,774)
Interest received	29,319	31,018
Other dividends received	-	12,203
Net cash used in investing activities	<u>(656,472)</u>	<u>(559,742)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of the principal portion of lease liabilities	(8,908)	(4,843)
Increase in non-controlling interests	26,195	27,298
Net cash generated from financing activities	<u>17,287</u>	<u>22,455</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(49,424)</u>	<u>26,023</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,262,894	(2,435,661)
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>\$ 11,468,151</u>	<u>\$ 11,740,735</u>

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

(With Deloitte & Touche auditors' review report dated August 13, 2020)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 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 August 13, 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 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 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
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)

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.

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

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand	\$ 95	\$ 93	\$ 112
Checking accounts and demand deposits	9,294,084	7,672,079	7,281,696
Cash equivalents			
Time deposits with original maturities within 3 months	<u>2,173,972</u>	<u>2,533,085</u>	<u>4,458,927</u>
	<u>\$ 11,468,151</u>	<u>\$ 10,205,257</u>	<u>\$ 11,740,735</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Non-derivative financial assets - current</u>			
Financial assets mandatorily classified as FVTPL			
Beneficiary certificates - open-end funds	\$ 2,833,672	\$ 2,816,597	\$ 2,623,480
Domestic listed shares	523,473	529,538	414,450
Convertible bonds	<u>-</u>	<u>94,770</u>	<u>182,246</u>
	<u>\$ 3,357,145</u>	<u>\$ 3,440,905</u>	<u>\$ 3,220,176</u>
<u>Non-derivative financial assets - non-current</u>			
Financial assets mandatorily classified as FVTPL			
Private equity funds	\$ 44,247	\$ 45,408	\$ 47,376
Domestic unlisted shares	306,827	341,618	293,751
Overseas unlisted shares	<u>71,862</u>	<u>72,280</u>	<u>98,429</u>
	<u>\$ 422,936</u>	<u>\$ 459,306</u>	<u>\$ 439,556</u>

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

Investments in Equity Instruments at FVTOCI

	June 30, 2020	December 31, 2019	June 30, 2019
Domestic investments - unlisted shares	\$ 222,716	\$ 230,267	\$ 185,079
Overseas investments - unlisted shares	<u>330,763</u>	<u>406,165</u>	<u>385,680</u>
	<u>\$ 553,479</u>	<u>\$ 636,432</u>	<u>\$ 570,759</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

	June 30, 2020	December 31, 2019	June 30, 2019
Certificates of deposit	\$ 40,396	\$ 20,383	\$ 20,370
Time deposits with original maturities of more than 3 months	<u>35,171</u>	<u>35,890</u>	<u>37,288</u>
	<u>\$ 75,567</u>	<u>\$ 56,273</u>	<u>\$ 57,658</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the interest rates for time deposits with original maturities of more than 3 months were 0.13%-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 29 for information relating to investments in financial assets at amortized cost pledged as security.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Notes receivable</u>			
At amortized cost			
Gross carrying amount	\$ -	\$ -	\$ 12,744
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,744</u>
Notes receivable - operating	\$ -	\$ -	\$ 9
Notes receivable - non-operating	<u>-</u>	<u>-</u>	<u>12,735</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,744</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount - non-related parties	\$ 4,724,145	\$ 5,494,199	\$ 4,605,786
Gross carrying amount - related parties	<u>543,862</u>	<u>537,149</u>	<u>439,168</u>
	5,268,007	6,031,348	5,044,954
Less: Loss allowance	<u>(116,897)</u>	<u>(97,378)</u>	<u>(81,414)</u>
	<u>\$ 5,151,110</u>	<u>\$ 5,933,970</u>	<u>\$ 4,963,540</u>
<u>Other receivables</u>			
Income tax refund receivable	\$ 194,586	\$ 292,145	\$ 222,462
Dividends receivable	53,155	-	-
Factored accounts receivable	19,818	30,342	43,442
Convertible bonds redemption receivable	-	83,286	-
Others	<u>45,119</u>	<u>21,309</u>	<u>28,561</u>
	<u>\$ 312,678</u>	<u>\$ 427,082</u>	<u>\$ 294,465</u>

Trade Receivables

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

In order to minimize credit risk, the management of the 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 trade receivables based on the Group's allowance matrix.

June 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	\$ 4,193,140	\$ 508,870	\$ 22,135	\$ -	\$ -	\$ -	\$ 4,724,145
Loss allowance (lifetime expected credit losses)	<u>(26,761)</u>	<u>(75,072)</u>	<u>(15,064)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(116,897)</u>
Amortized cost	<u>\$ 4,166,379</u>	<u>\$ 433,798</u>	<u>\$ 7,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,607,248</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>

June 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	\$ 4,242,865	\$ 337,953	\$ 4,068	\$ 2,346	\$ 5,699	\$ 12,855	\$ 4,605,786
Loss allowance (lifetime expected credit losses)	<u>(19,553)</u>	<u>(40,958)</u>	<u>(2,192)</u>	<u>(1,465)</u>	<u>(4,534)</u>	<u>(12,712)</u>	<u>(81,414)</u>
Amortized cost	<u>\$ 4,223,312</u>	<u>\$ 296,995</u>	<u>\$ 1,876</u>	<u>\$ 881</u>	<u>\$ 1,165</u>	<u>\$ 143</u>	<u>\$ 4,524,372</u>

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

	For the Six Months Ended June 30	
	2020	2019
Balance, beginning of period	\$ 97,378	\$ 151,342
Add: Amounts written off (reversed)	19,537	(70,136)
Foreign exchange gains and losses	<u>(18)</u>	<u>208</u>
Balance, end of the period	<u>\$ 116,897</u>	<u>\$ 81,414</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 six months ended <u>June 30, 2020</u>					
HSBC Bank	US\$ 3,457	US\$ 669	US\$ -	-	-
For the six months ended <u>June 30, 2019</u>					
HSBC Bank	US\$ 11,294	US\$ 9,660	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

	June 30, 2020	December 31, 2019	June 30, 2019
Raw materials	\$ 7,782,248	\$ 6,933,204	\$ 5,789,634
Work-in-process	3,065,917	2,672,047	2,355,461
Semi-finished goods	1,994,320	1,762,677	2,726,328
Finished goods	219,107	120,337	85,684
Merchandise	<u>464</u>	<u>44,459</u>	<u>-</u>
	<u>\$ 13,062,056</u>	<u>\$ 11,532,724</u>	<u>\$ 10,957,107</u>

The inventories recognized as costs of goods sold for the three months and six months ended June 30, 2020 and 2019 were \$8,167,396 thousand, \$7,607,051 thousand, \$17,119,381 thousand and \$14,855,374 thousand, respectively.

The costs of goods sold for the three months and six months ended June 30, 2020 and 2019 included inventory write-downs of \$304,727 thousand, \$15,681 thousand, \$285,803 thousand and \$16,092 thousand, respectively.

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
			June 30, 2020	December 31, 2019	June 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 3
	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	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 integrated circuits, systems and electronics hardware and software and rendering of related services	95.49	97.69	96.91	Note 25
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 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 3
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 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	-
	Cloud Solution Global Limited	Trade of electronic components	-	-	100.00	Remark 1
	Fast Choice Global Limited	Trade of electronic components	-	-	100.00	Remark 1
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	-	Remark 2

Remark 1: The company ended its operations in August 2019 and completed the liquidation procedures.

Remark 2: In 2019, the Corporation invested in Phison Technology Inc. through sub-company for operational needs.

Remark 3: 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 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	June 30, 2020	December 31, 2019	June 30, 2019
<u>Unlisted shares</u>			
Kingston Solutions Inc.	\$ 1,022,484	\$ 965,294	\$ 952,319
Epostar Electronics (BVI) Corporation	265,830	-	5,235
Microtops Design Corporation (“Microtops”)	23,081	24,403	23,137
PMS Technology Corporation	18,263	17,962	18,103
Hefei Xinpeng Technology Co., Ltd.	303,452	245,507	267,645
HOSIN Global Electronics Co., Ltd. (SZ)	476,237	390,993	194,620
ProGrade Digital, Inc.	<u>80,050</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,189,397</u>	<u>\$ 1,644,159</u>	<u>\$ 1,461,059</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 US\$2,785 thousand in ProGrade Digital, Inc. and CNY20,000 thousand in Hefei Xinpeng Technology Co., Ltd. As of June 30, 2020, the Group’s percentages of ownership in ProGrade Digital, Inc. and Hefei Xinpeng Technology Co., Ltd. were 33.55% and 48.46%, respectively.

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

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.

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 six months ended June 30, 2020 and 2019 were based on the financial statements that have not been reviewed.

14. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2020	December 31, 2019	June 30, 2019
Land	\$ 958,807	\$ 958,807	\$ 813,738
Land improvements	2,454	3,043	3,632
Buildings	1,713,271	1,739,428	1,756,680
Testing equipment	537,781	491,869	357,078
Office equipment	25,173	24,106	19,607
Mechanical equipment	39,280	44,256	-
Other equipment	17,699	21,441	41,343
Construction in progress	<u>419,400</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,713,865</u>	<u>\$ 3,282,950</u>	<u>\$ 2,992,078</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.

Except for the depreciation and the above construction in progress, the Group had no significant additions to, disposals of, and impairment of property, plant and equipment for the six months ended June 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 years
Mechanical equipment	3 years
Other equipment	3-5 years

15. LEASE ARRANGEMENTS

a. Right-of-use assets

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Carrying amounts</u>			
Buildings	\$ 33,596	\$ 32,058	\$ 36,354
Transportation equipment	469	782	1,095
Other assets	<u>5,753</u>	<u>-</u>	<u>-</u>
	<u>\$ 39,818</u>	<u>\$ 32,840</u>	<u>\$ 37,449</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Depreciation charge for right-of-use assets				
Buildings	\$ 4,928	\$ 2,768	\$ 7,946	\$ 4,752
Transportation equipment	156	157	313	314
Other assets	<u>822</u>	<u>-</u>	<u>822</u>	<u>-</u>
	<u>\$ 5,906</u>	<u>\$ 2,925</u>	<u>\$ 9,081</u>	<u>\$ 5,066</u>

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

b. Lease liabilities

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Carrying amounts</u>			
Current	<u>\$ 15,071</u>	<u>\$ 12,520</u>	<u>\$ 11,359</u>
Non-current	<u>\$ 25,040</u>	<u>\$ 20,702</u>	<u>\$ 26,109</u>

Range of discount rate for lease liabilities was as follows:

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

c. Material lease activities and terms

The Group leases buildings for the use of plants and offices with lease periods from 2017 to 2024. The Group has no options to purchase the equipment for a nominal amount at the end of the lease terms.

d. 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

	June 30, 2020	December 31, 2019	June 30, 2019
Computer software	\$ 188,717	\$ 173,480	\$ 111,079
Technology license fees	<u>72,369</u>	<u>94,546</u>	<u>37,255</u>
	<u>\$ 261,086</u>	<u>\$ 268,026</u>	<u>\$ 148,334</u>

Except for amortization, the Group had no significant additions, disposals, and impairment of intangible assets for the six months ended June 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. OTHER PAYABLES

	June 30, 2020	December 31, 2019	June 30, 2019
Salaries and bonuses payable	\$ 3,619,001	\$ 3,221,135	\$ 2,025,931
Dividends payable	2,561,962	-	2,561,962
Others	<u>1,193,688</u>	<u>1,176,994</u>	<u>1,219,425</u>
	<u>\$ 7,374,651</u>	<u>\$ 4,398,129</u>	<u>\$ 5,807,318</u>

18. OTHER CURRENT LIABILITIES

	June 30, 2020	December 31, 2019	June 30, 2019
Refund liabilities	\$ 594,537	\$ 419,506	\$ 150,000
Payables for purchases of equipment	10,937	35,810	20,351
Receipts under custody	33,096	29,245	25,036
Others	<u>53,185</u>	<u>35,183</u>	<u>71,718</u>
	<u>\$ 691,755</u>	<u>\$ 519,744</u>	<u>\$ 267,105</u>

19. RETIREMENT BENEFIT PLANS

Employee benefits expenses for the three months and the six months ended June 30, 2020 and 2019 in respect of the Group's defined benefit retirement plans were \$804 thousand, \$676 thousand, \$1,608 thousand and \$1,352 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.

20. EQUITY

a. Share capital

Common shares

	June 30, 2020	December 31, 2019	June 30, 2019
Number of shares authorized (in thousands)	<u>280,000</u>	<u>280,000</u>	<u>280,000</u>
Shares authorized	<u>\$ 2,800,000</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 24 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, 16,000 thousand shares were reserved for the issuance of employee share options.

b. Capital surplus

	June 30, 2020	December 31, 2019	June 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)	1,922	2,369	1,621
Share of changes in capital surplus of associates or joint ventures	368,274	335,316	307,511
<u>May not be used for any purpose</u>			
Employee share options	<u>91,960</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,848,575</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		Dividends Per Share (NT\$)	
	For Year 2019	For Year 2018	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	\$13	\$13

21. INCOME TAXES

a. Income tax recognized in profit or loss:

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

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ 140,304	\$ 140,574	\$ 455,886	\$ 290,304
Adjustments for prior periods	(221,487)	-	(221,487)	-
Income tax on unappropriated earnings	<u>82,357</u>	<u>38,463</u>	<u>82,357</u>	<u>38,463</u>
	<u>1,174</u>	<u>179,037</u>	<u>316,756</u>	<u>328,767</u>
Deferred tax				
In respect of the current period	<u>(62,675)</u>	<u>15,485</u>	<u>(38,359)</u>	<u>24,850</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$ (61,501)</u>	<u>\$ 194,522</u>	<u>\$ 278,397</u>	<u>\$ 353,617</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		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
<u>Deferred income tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ 5,916	\$ 2,269	\$ 7,967	\$ (1,912)
Total income tax recognized in other comprehensive income	\$ 5,916	\$ 2,269	\$ 7,967	\$ (1,912)

c. Income tax assessments

<u>Associate</u>	<u>For the Year Ended</u>
Phison Electronics Corp.	2017
Lian Xu Dong Investment Corporation	2018
Emtops Electronics Corp.	2018
Ostek Corporation	2018
Phisontech Electronics Taiwan Corp.	2018
Memoryexchange Corporation	2018

22. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

The following items were included in the net profit:

a. Other gains and losses

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Fair value changes of financial assets and financial liabilities				
Financial assets mandatorily classified as FVTPL	\$ 79,554	\$ (50,163)	\$ (22,503)	\$ 39,292
Net foreign exchange (losses) gains	(117,573)	43,365	(44,943)	68,809
Others	225	551	(881)	1,384
	\$ (37,794)	\$ (6,247)	\$ (68,327)	\$ 109,485

b. Interest income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Interest income				
Bank deposits	\$ 11,454	\$ 16,715	\$ 22,420	\$ 30,678
Others	<u>780</u>	<u>14</u>	<u>6,252</u>	<u>26</u>
	<u>\$ 12,234</u>	<u>\$ 16,729</u>	<u>\$ 28,672</u>	<u>\$ 30,704</u>

c. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Rental income	\$ 348	\$ 348	\$ 755	\$ 696
Dividend income	53,155	5,400	53,155	12,203
Others	<u>27,966</u>	<u>42,820</u>	<u>63,022</u>	<u>59,457</u>
	<u>\$ 81,469</u>	<u>\$ 48,568</u>	<u>\$ 116,932</u>	<u>\$ 72,356</u>

d. Finance costs

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Interest on bank loans	\$ 111	\$ 676	\$ 460	\$ 764
Interest on lease liabilities	<u>346</u>	<u>265</u>	<u>563</u>	<u>434</u>
	<u>\$ 457</u>	<u>\$ 941</u>	<u>\$ 1,023</u>	<u>\$ 1,198</u>

e. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Property, plant and equipment	\$ 85,161	\$ 65,099	\$ 166,320	\$ 129,130
Right-of-use assets	5,906	2,925	9,081	5,066
Intangible assets	<u>48,948</u>	<u>32,096</u>	<u>94,330</u>	<u>83,037</u>
	<u>\$ 140,015</u>	<u>\$ 100,120</u>	<u>\$ 269,731</u>	<u>\$ 217,233</u>
An analysis of depreciation by function				
Operating costs	\$ 17,559	\$ 13,098	\$ 34,084	\$ 24,831
Operating expenses	<u>73,508</u>	<u>54,926</u>	<u>141,317</u>	<u>109,365</u>
	<u>\$ 91,067</u>	<u>\$ 68,024</u>	<u>\$ 175,401</u>	<u>\$ 134,196</u>

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
An analysis of amortization by function				
Operating costs	\$ 14	\$ -	\$ 14	\$ -
Operating expenses	<u>48,934</u>	<u>32,096</u>	<u>94,316</u>	<u>83,037</u>
	<u>\$ 48,948</u>	<u>\$ 32,096</u>	<u>\$ 94,330</u>	<u>\$ 83,037</u>

(Concluded)

f. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term employee benefits	<u>\$ 1,138,620</u>	<u>\$ 733,403</u>	<u>\$ 2,753,921</u>	<u>\$ 1,505,955</u>
Post-employment benefits				
Defined contribution plan	27,656	23,269	54,182	45,621
Defined benefit plan	<u>804</u>	<u>676</u>	<u>1,608</u>	<u>1,352</u>
	<u>28,460</u>	<u>23,945</u>	<u>55,790</u>	<u>46,973</u>
Share-based payments				
Equity-settled	<u>44,501</u>	-	<u>91,960</u>	-
Termination benefits	<u>93</u>	-	<u>93</u>	-
Other employee benefits				
Employee welfare	14,103	13,014	31,045	25,693
Food stipend	<u>14,309</u>	<u>11,751</u>	<u>28,060</u>	<u>23,062</u>
	<u>28,412</u>	<u>24,765</u>	<u>59,105</u>	<u>48,755</u>
	<u>\$ 1,240,086</u>	<u>\$ 782,113</u>	<u>\$ 2,960,869</u>	<u>\$ 1,601,683</u>
Employee benefits				
Recognized in operating costs	\$ 72,439	\$ 55,790	\$ 143,233	\$ 111,871
Recognized in operating expenses	<u>1,167,647</u>	<u>726,323</u>	<u>2,817,636</u>	<u>1,489,812</u>
	<u>\$ 1,240,086</u>	<u>\$ 782,113</u>	<u>\$ 2,960,869</u>	<u>\$ 1,601,683</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 six months ended June 30, 2020 and 2019, the employees' compensation and remuneration of directors and supervisors were as follows:

Accrual rate

	For the Six Months Ended June 30	
	2020	2019
Employees' compensation	9.82%	10.06%
Remuneration of directors and supervisors	0.98%	1.01%

Amount

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Employees' compensation	<u>\$ 126,966</u>	<u>\$ 108,215</u>	<u>\$ 370,091</u>	<u>\$ 227,554</u>
Remuneration of directors and supervisors	<u>\$ 12,697</u>	<u>\$ 10,821</u>	<u>\$ 37,009</u>	<u>\$ 22,755</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 June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Foreign exchange gains	\$ 74,799	\$ 91,196	\$ 161,220	\$ 141,289
Foreign exchange losses	<u>(192,372)</u>	<u>(47,831)</u>	<u>(206,163)</u>	<u>(72,480)</u>
Net (losses) gains	<u>\$ (117,573)</u>	<u>\$ 43,365</u>	<u>\$ (44,943)</u>	<u>\$ 68,809</u>

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Basic earnings per share	<u>\$ 6.00</u>	<u>\$ 3.96</u>	<u>\$ 15.64</u>	<u>\$ 8.43</u>
Diluted earnings per share	<u>\$ 5.99</u>	<u>\$ 3.94</u>	<u>\$ 15.46</u>	<u>\$ 8.36</u>

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

Net Profit

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	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>\$ 1,183,293</u>	<u>\$ 779,270</u>	<u>\$ 3,081,342</u>	<u>\$ 1,661,093</u>
Earnings used in the computation of diluted earnings per share Profit for the period attributable to owners of the Corporation	<u>\$ 1,183,293</u>	<u>\$ 779,270</u>	<u>\$ 3,081,342</u>	<u>\$ 1,661,093</u>

Shares

(In Thousands of Shares)

	For the Three Months Ended June 30		For the Six Months Ended June 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>432</u>	<u>382</u>	<u>2,272</u>	<u>1,728</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>197,506</u>	<u>197,456</u>	<u>199,346</u>	<u>198,802</u>

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

24. 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.

Information on employee share options is as follows:

	For the Six Months Ended June 30, 2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Options forfeited	<u>(42)</u>	\$ -
Balance at June 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:

	June 30, 2020
Range of exercise price (\$)	\$340
Weighted-average remaining contractual life (in years)	2.5

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	0.00%
Expected life	3 years
Risk-free interest rate	0.52%-0.53%

Compensation costs recognized were \$44,501 thousand and \$91,960 thousand for the three months and six months ended June 30, 2020, respectively.

25. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In March 2020 and 2019, the Group subscribed for additional new shares of Hefei Core Storage Electronic Limited at a percentage different from its existing ownership percentage, resulting in reductions in its ownership percentage; after the subscription for the new shares, the ownership percentages were 95.49% and 96.91%, respectively.

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

	For the Six Months Ended June 30	
	2020	2019
Cash consideration received	\$ 25,925	\$ 27,250
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>(26,372)</u>	<u>(25,629)</u>
Differences recognized from equity transactions	<u>\$ (447)</u>	<u>\$ 1,621</u>
<u>Line items adjusted for equity transactions</u>		
Capital surplus - changes in percentage of ownership interests in subsidiaries	<u>\$ (447)</u>	<u>\$ 1,621</u>

26. 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.

27. 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

June 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 523,473	\$ -	\$ -	\$ 523,473
Domestic unlisted shares	-	-	306,827	306,827
Overseas unlisted shares	-	-	71,862	71,862
Domestic private equity funds	-	-	44,247	44,247
Beneficiary certificates - open-end funds	<u>2,833,672</u>	<u>-</u>	<u>-</u>	<u>2,833,672</u>
	<u>\$ 3,357,145</u>	<u>\$ -</u>	<u>\$ 422,936</u>	<u>\$ 3,780,081</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 222,716	\$ 222,716
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>330,763</u>	<u>330,763</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 553,479</u>	<u>\$ 553,479</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>

June 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 414,450	\$ -	\$ -	\$ 414,450
Domestic unlisted shares	-	-	293,751	293,751
Overseas unlisted shares	-	-	98,429	98,429
Domestic private equity funds	-	-	47,376	47,376
Beneficiary certificates - open-end funds	2,623,480	-	-	2,623,480
Convertible bonds	<u>-</u>	<u>-</u>	<u>182,246</u>	<u>182,246</u>
	<u>\$ 3,037,930</u>	<u>\$ -</u>	<u>\$ 621,802</u>	<u>\$ 3,659,732</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 185,079	\$ 185,079
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>385,680</u>	<u>385,680</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,759</u>	<u>\$ 570,759</u>

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

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

For the six months ended June 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					
Other gains and losses	(1,161)	(2,391)	(19,961)	-	(23,513)
Recognized in other comprehensive income					
Unrealized gain on financial assets at FVTOCI	-	-	-	21,041	21,041
Purchases	-	-	3,892	-	3,892
Sales	-	(92,379)	-	(103,994)	(196,373)
Capital reduction and refund of shares	-	-	(19,140)	-	(19,140)
Balance at June 30, 2020	<u>\$ 44,247</u>	<u>\$ -</u>	<u>\$ 378,689</u>	<u>\$ 553,479</u>	<u>\$ 976,415</u>

For the six months ended June 30, 2019

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2019	\$ 47,366	\$ 85,288	\$ 380,423	\$ 450,397	\$ 963,474
Recognized in profit or loss					
Other gains and losses	10	4,579	(13,966)	-	(9,377)
Recognized in other comprehensive income					
Unrealized gain on financial assets at FVTOCI	-	-	-	86,522	86,522
Purchases	-	92,379	25,723	33,160	151,262
Effects of foreign currency exchange differences	-	-	-	680	680
Balance at June 30, 2019	<u>\$ 47,376</u>	<u>\$ 182,246</u>	<u>\$ 392,180</u>	<u>\$ 570,759</u>	<u>\$ 1,192,561</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 June 30, 2019, the historical volatilities used were 49.88% and 61.19%, 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.

	June 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.

	June 30	
	2020	2019
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	1.37%	2.1%
WACC	12.79%-15.94%	14.2%

- 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.

	June 30	
	2020	2019
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets</u>			
Financial assets at FVTPL			
Mandatorily classified as FVTPL	\$ 3,780,081	\$ 3,900,211	\$ 3,659,732
Financial assets at amortized cost (Note 1)	17,007,506	16,622,582	17,069,142
Financial assets at FVTOCI			
Equity instruments	553,479	636,432	570,759
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 2)	9,872,936	8,040,788	10,582,258

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

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

d. Financial risk management objectives and policies

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

1) Market risk

The Group's activities 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 32.

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 Six Months Ended	
	June 30	
	2020	2019
Profit or loss	\$ 436,336	\$ 246,226

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:

	June 30, 2020	December 31, 2019	June 30, 2019
Fair value interest rate risk			
Financial assets	\$ 2,249,539	\$ 2,589,358	\$ 4,516,585
Financial liabilities	40,111	33,222	37,468
Cash flow interest rate risk			
Financial assets	9,294,084	7,672,079	7,281,696

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 six months ended June 30, 2020 and 2019 would increase by \$465 thousand and \$364 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic listed stock, convertible bonds, private equity funds and 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 six months ended June 30, 2020 and 2019 would have increased/decreased by \$37,801 thousand and \$36,597 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 six months ended June 30, 2020 and 2019 would have increased/decreased by \$5,535 thousand and \$5,708 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

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

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

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity. As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group had available unutilized short-term bank loan facilities of \$8,110,400 thousand, \$7,858,400 thousand, and \$7,259,800 thousand, respectively.

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.

	June 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	\$ 4,523,072	\$ 2,669,293	\$ 3,297,998	\$ -	\$ -
Lease liabilities	<u>1,361</u>	<u>2,701</u>	<u>11,782</u>	<u>25,685</u>	<u>-</u>
	<u>\$ 4,524,433</u>	<u>\$ 2,671,994</u>	<u>\$ 3,309,780</u>	<u>\$ 25,685</u>	<u>\$ -</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>
	June 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	\$ 6,858,448	\$ 2,428,644	\$ 1,922,170	\$ -	\$ -
Lease liabilities	<u>935</u>	<u>1,876</u>	<u>8,548</u>	<u>26,109</u>	<u>-</u>
	<u>\$ 6,859,383</u>	<u>\$ 2,430,520</u>	<u>\$ 1,930,718</u>	<u>\$ 26,109</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.

28. 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)
Dynabook ANZ Pty. Limited	Other related party (Note 3)
Kioxia Taiwan Corporation	Other related party (Note 4)
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
Super Storage Technology Corporation	Other related party (Note 5)
Kingston Solutions Inc.	Associate
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
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 Client Solutions ANZ Pty Limited was renamed as Dynabook ANZ Pty. Limited on April 1, 2019.

Note 4: Toshiba Memory Taiwan Corporation was renamed as Kioxia Taiwan Corporation on October 1, 2019.

Note 5: United Power Research Technology Corporation was renamed as Super Storage Technology Corporation on July 15, 2020.

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 June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Associates	\$ 342,098	\$ 272,207	\$ 606,195	\$ 437,756
Other related parties	<u>402,505</u>	<u>488,012</u>	<u>923,776</u>	<u>1,048,783</u>
	<u>\$ 744,603</u>	<u>\$ 760,219</u>	<u>\$ 1,529,971</u>	<u>\$ 1,486,539</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 June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Associates	\$ 43,076	\$ 88,611	\$ 229,566	\$ 413,118
Other related parties				
Kioxia Taiwan Corporation	2,380,136	2,948,782	4,844,817	7,911,642
Others	<u>5,385</u>	<u>340,749</u>	<u>544,314</u>	<u>713,541</u>
	<u>\$ 2,428,597</u>	<u>\$ 3,378,142</u>	<u>\$ 5,618,697</u>	<u>\$ 9,038,301</u>

2) Processing costs

Related Party Category/Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Associates	\$ 12	\$ 12	\$ 25	\$ 91
Other related parties	<u>489,602</u>	<u>649,205</u>	<u>1,082,607</u>	<u>1,266,512</u>
	<u>\$ 489,614</u>	<u>\$ 649,217</u>	<u>\$ 1,082,632</u>	<u>\$ 1,266,603</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	June 30, 2020	December 31, 2019	June 30, 2019
	Associates	\$ 241,431	\$ 246,653
Other related parties	<u>302,431</u>	<u>290,496</u>	<u>313,306</u>
	<u>\$ 543,862</u>	<u>\$ 537,149</u>	<u>\$ 439,168</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	June 30, 2020	December 31,	
		2019	June 30, 2019
Associates	\$ 7,242	\$ 29,796	\$ 29,053
Other related parties			
Kioxia Taiwan Corporation	647,594	1,034,293	1,964,617
Others	<u>185,279</u>	<u>320,008</u>	<u>604,580</u>
	<u>\$ 840,115</u>	<u>\$ 1,384,097</u>	<u>\$ 2,598,250</u>

The outstanding trade payables to related parties are unsecured.

f. Compensation of key management personnel

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 177,821	\$ 46,404	\$ 316,672	\$ 93,356
Post-employment benefits	802	623	1,531	1,208
Share-based payments	19,443	-	38,909	-
Other employee benefits	<u>2,378</u>	<u>953</u>	<u>3,986</u>	<u>1,917</u>
	<u>\$ 200,444</u>	<u>\$ 47,980</u>	<u>\$ 361,098</u>	<u>\$ 96,481</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 June 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 June 30, 2020, the Group's shareholding percentage in Phisontech Electronics Taiwan Corp. was 100%.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	June 30, 2020	December 31,	
		2019	June 30, 2019
Refundable deposits for customs duties - certificates of deposit (financial assets at amortized cost - current)	<u>\$ 40,396</u>	<u>\$ 20,383</u>	<u>\$ 20,370</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of June 30, 2020, December 31, 2019 and June 30, 2019 were as follows:

Significant Commitments

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

31. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- a. On April 6, 2020, the board of directors of Phisontech Electronics Taiwan Corp., a subsidiary of the Corporation, resolved to acquire 100% ownership in Super Storage Technology Corporation (formerly United Power Research Technology Corp.) by means of a share exchange at NT\$13 per share. The subscription base date was scheduled at July 1, 2020.
- b. On July 14, 2020, the Corporation's board of directors resolved to dispose 32.91% ownership of Kingston Solutions Inc. at NT\$168 per share (the disposal amount was \$1,781,640 thousand). The Corporation will proceed with the settlement process of contract after Kingston Technology Corporation acquires the approval from the Investment Commission, Ministry of Economic Affairs.
- c. In August 2020, the Corporation invested in Nextorage Corporation, the subsidiary of SONY Storage Media Solutions Corporation of Japan. After the investment, the Group owns 49% equity of Nextorage Corporation.
- d. 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.

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 will be processed after acquiring the approval from the Investment Commission, Ministry of Economic Affairs.

32. 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

	June 30, 2020		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD (USD:NTD)	\$ 295,944	29.6300	\$ 8,768,823
USD (USD:CNY)	7,868	7.0795	233,142
CNY (CNY:NTD)	34,475	4.1910	144,484
<u>Financial liabilities</u>			
Monetary items			
USD (USD:NTD)	58,376	29.6300	1,729,691
	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
	June 30, 2019		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD (USD:NTD)	\$ 218,119	31.0600	\$ 6,774,766
USD (USD:CNY)	12,400	6.8747	385,159
CNY (CNY:NTD)	33,681	4.5210	152,274
<u>Financial liabilities</u>			
Monetary items			
USD (USD:NTD)	98,395	31.0600	3,056,143

For the three months and six months ended June 30, 2020 and 2019, net realized and unrealized gains and losses on foreign exchange were a loss of \$117,573 thousand, a gain of \$43,365 thousand, a loss of \$44,943 thousand and a gain of \$68,809 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.

33. 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, 2019, 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.

34. 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. (Table 8)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.
- 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)

35. 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:

	<u>Segment Revenue</u>		<u>Segment Profits (Loss)</u>	
	<u>For the Three Months Ended</u>		<u>For the Three Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Department that designs and sells flash memory controllers	\$ 10,854,849	\$ 9,783,128	\$ 1,080,835	\$ 1,066,045
Investment department	<u>-</u>	<u>-</u>	<u>(976)</u>	<u>(167)</u>
Total operating segments	<u>\$ 10,854,849</u>	<u>\$ 9,783,128</u>	1,079,859	1,065,878
Other gains and losses			(37,794)	(6,247)
Share of losses of associates			(12,054)	(148,399)
Interest income			12,234	16,729
Other income			81,469	48,568
Financial costs			<u>(457)</u>	<u>(941)</u>
Profit before tax			<u>\$ 1,123,257</u>	<u>\$ 975,588</u>

	<u>Segment Revenue</u>		<u>Segment Profit</u>	
	<u>For the Six Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Department that designs and sells flash memory controllers	\$ 23,721,552	\$ 19,126,144	\$ 2,863,219	\$ 2,133,746
Investment department	<u>-</u>	<u>-</u>	<u>(720)</u>	<u>(321)</u>
Total operating segments	<u>\$ 23,721,552</u>	<u>\$ 19,126,144</u>	2,862,499	2,133,425
Other gains and losses			(68,327)	109,485
Share of gains (losses) of associates			422,554	(328,266)
Interest income			28,672	30,704
Other income			116,932	72,356
Financial costs			<u>(1,023)</u>	<u>(1,198)</u>
Profit before tax			<u>\$ 3,361,307</u>	<u>\$ 2,016,506</u>

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

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

b. Segment assets and liabilities

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

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

JUNE 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	June 30, 2020				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	<u>Beneficiary certificates</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 206,111	-	\$ 206,111	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	205,928	-	205,928	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	215,256	-	215,256	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	152,580	-	152,580	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	205,362	-	205,362	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	16,113	203,194	-	203,194	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	202,251	-	202,251	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	12,070	192,187	-	192,187	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	151,765	-	151,765	Note 3
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	14,809	201,688	-	201,688	Note 3
	Taishin Ta-Chong Money Market Fund	-	Financial assets at FVTPL - current	14,102	201,598	-	201,598	Note 3
	TCB Taiwan Money Market Fund	-	Financial assets at FVTPL - current	19,716	201,518	-	201,518	Note 3
	Capital Money Market Fund	-	Financial assets at FVTPL - current	12,416	201,595	-	201,595	Note 3
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	87,303	1.32	87,303	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	436,170	9.96	436,170	Note 4
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	17,125	0.67	17,125	Note 5
	AppWorks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	7,500	191,643	11.11	191,643	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	18,631	5.61	18,631	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	728	11,006	18.75	11,006	Note 5
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	529	-	0.60	-	-
	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	29,577	19.00	29,577	Note 5
	THLight Co., Ltd.	-	Financial assets at FVTOCI - non-current	6,388	-	13.19	-	-
	UD INFO Corp.	-	Financial assets at FVTOCI - non-current	741	95,584	17.98	95,584	Note 5
	GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	5.36	-	-
	Ironyun Incorporated (preference shares)	-	Financial assets at FVTOCI - non-current	5,000	-	5.64	-	-
	Gospal Ltd.	-	Financial assets at FVTOCI - non-current	811,857	2,484	3.40	2,484	Note 5
	H3 Platform, Inc.	-	Financial assets at FVTOCI - non-current	18,400	13,379	12.14	13,379	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	29,769	17.16	29,769	Note 5
	Acser Synergy Tech Corp.	-	Financial assets at FVTPL - non-current	900	35,547	8.09	35,547	Note 5
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	9,943	3.39	9,943	Note 6
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Financial assets at FVTPL - non-current	50,000	50,000	1.08	50,000	Note 6
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	44,247	3.81	44,247	Note 5

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	June 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</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	\$ 30,592	-	\$ 30,592	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,569	-	30,569	Note 3
	<u>Common shares</u>							
	Super Storage Technology Corporation	-	Financial assets at FVTOCI - non-current	5,616	73,016	16.12	73,016	Note 7
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	40,272	1.18	40,272	Note 5
	Translink Capital Partners IV L.P.	-	Financial assets at FVTPL - non-current	560	14,465	0.59	14,465	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	230,771	6.70	230,771	Note 6
	UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	28,647	2.51	28,647	Note 6
	Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	24,539	2.60	24,539	Note 5
RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	15,770	1.97	15,770	Note 6	
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	3,980	50,240	-	50,240	Note 3
	FSITC Money Market	-	Financial assets at FVTPL - current	280	50,216	-	50,216	Note 3
	Taishin Ta-Chong Money Market Fund	-	Financial assets at FVTPL - current	3,513	50,220	-	50,220	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,275	-	10,275	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	5,816	60,522	-	60,522	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	10,005	-	10,005	Note 3

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 June 30, 2020.

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

Note 5: Refer to Note 27 (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 shareholders’ meeting of Super Storage Technology Corporation (formerly United Power Research Technology Corp.) resolved on May 15, 2020 that the shares exchange with Phisontech Electronics Taiwan Corp. was at \$13 per share.

Note 8: 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 SIX MONTHS ENDED JUNE 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		Acquisition		Disposal				Ending Balance (Note)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
Phison Electronics Corp.	Phisontech Electronics Taiwan Corp.	Investments accounted for using the equity method	Subsidiary	Subsidiary	1,000	\$ 40,518	54,000	\$ 540,000	-	\$ -	\$ -	\$ -	55,000	\$ 577,548

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 SIX MONTHS ENDED JUNE 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	
Phison Electronics Corp.	Kingston Solutions Inc.	Investee company accounted for using the equity method	Purchase	\$ 153,036	1	Net 30 days after monthly closing	None	None	\$ (7,242)	-	-
	Kioxia America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	536,754	4	Net 30 days after receipt date	None	None	(5,358)	-	-
	Kioxia Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	4,844,817	32	Net 30 days after monthly closing	None	None	(647,594)	(24)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	912,997	5	Net 30 days after monthly closing	None	None	(142,874)	(5)	-
	Super Storage Technology Corporation	The subsidiary of the Corporation is its director	Processing cost	169,610	1	Net 30 days after monthly closing	None	None	(37,047)	(1)	-
	Kioxia Corporation	The Corporation's legal entity board of directors	Sale	(402,436)	(2)	Net 60 days after monthly closing	None	None	125,898	2	-
	Kingston Solutions Inc.	Investee company accounted for using the equity method	Sale	(321,534)	(1)	Net 60 days after monthly closing	None	None	105,132	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(468,327)	(2)	Net 45 days after monthly closing	None	None	145,760	3	-
	Hefei Core Storage Electronic Limited	Sub-sub-sidiary	Sale	(292,912)	(1)	Net 30 days after monthly closing	None	None	61,847	1	-
Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-sub-sidiary's associate	Sale	(185,605)	(1)	Net 60 days after receipt date	None	None	105,993	2	-	

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

JUNE 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		
Phison Electronics Corp.	Apacer Technology Inc.	The Corporation is its director	\$ 145,760	5.71	\$ -	-	\$ 52,531	\$ -
	Kingston Solutions Inc.	Investee company accounted for using the equity method	105,132	4.28	-	-	64,062	-
	Kioxia Corporation	The Corporation's legal entity board of directors	125,898	8.13	-	-	58,228	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	105,993	4.95	-	-	46,522	-

Note: As of July 31, 2020.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

Number	Company Name	Counterparty	Flow of Transaction	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	Phison Electronics Corp.	Hefei Core Storage Electronic Limited	1	Sales revenue	\$ 292,912	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	61,847	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research expenses	85,905	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	82,923	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	15,912	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	2,074	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	8,563	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	4,137	Based on regular terms	-
		Phison Technology Inc.	1	Sales expenses	49,442	Based on regular terms	-

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

- a. Parent company to subsidiary: 1.

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2020			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				June 30, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ 106,050	\$ 106,050	10,605,000	32.91	\$ 1,022,484	\$ 331,682	\$ 109,157	Investee company accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	345,460	(9,018)	(9,018)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	731,048	(426)	(426)	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	23,081	(2,700)	(1,323)	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	577,548	(2,970)	(2,970)	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	31,901	285	285	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	1,158,472	1,158,472	37,100,000	100.00	1,153,885	32,511	32,511	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	1,440	717	717	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	44.21	265,830	624,841	271,268	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	98,152	20	20	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	391,867	48,266	48,266	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	393,214	393,214	13,000,000	100.00	553,932	39,607	39,607	Subsidiary
	ProGrade Digital Inc.	America	Flash memory related products and market development	83,439	-	2,785,000	33.55	80,050	(8,936)	(2,998)	Investee company accounted for using the equity method

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2020			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				June 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 Research and design of flash memory controllers and related products	\$ 9,000	\$ 9,000	900,000	100.00	\$ 30,472	\$ 1,597	\$ -	Sub-subsidiary
	PMS Technology Corporation	Taiwan		2,000	2,000	200,000	33.33	18,263	902	-	Investee company accounted for using the equity method
Emtops Electronics Corporation	Phison Technology Inc.	America	Sales and service office	31,415	31,415	1,000,000	100.00	22,720	(8,262)	-	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	1,137,847	35,290	-	Sub-subsidiary
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	98,754	98,754	3,000,000	100.00	92,332	83	-	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	391,986	40,950,000	100.00	60,391	50,174	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	391,989	391,989	12,950,000	100.00	558,403	39,622	-	Sub-subsidiary

(Concluded)

TABLE 7

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE SIX MONTHS ENDED JUNE 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 June 30, 2020	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of June 30, 2020	Accumulated Inward Remittance of Earnings as of June 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	100.00	\$ (2,103)	\$ 4,038	\$ -	b (2)
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	1,059,715	b	1,063,215	-	-	1,063,215	95.49	35,373	1,130,169	-	b (2)
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	b	182,825	-	-	182,825	100.00	(3,412)	163,721	-	b (1)
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and rendering of related services and investment	280,387	b	-	-	-	-	100.00	5,516	270,214	-	b (2)
Hefei Xinpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	735,136	b	-	-	-	-	48.46	(9,086)	303,452	-	b (1), b (2)
Hosin Global Electronics Co., Ltd. (SZ)	Design, R&D and sale of integrated circuits and electronics hardware and software and rendering of related services	613,690	b	183,640	-	-	183,640	36.76	55,235	476,237	-	b (1), b (2)

(Continued)

Accumulated Investments in Mainland China as of June 30, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 1,482,776 (US\$ 47,608)	\$ 1,514,933 (US\$ 48,790)	\$ 17,909,254

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 SIX MONTHS ENDED JUNE 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	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	\$ 292,912	1	Net 30 days after monthly closing	None	None	\$ 61,847	1	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the second-tier subsidiary's associate	Sale	185,605	1	Net 60 days after receipt date	None	None	105,993	2	-
	Hosin Global Electronics Co., Ltd. (SZ)	The reinvestment of the second-tier subsidiary	Sale	5,930	-	Net 45 days after monthly closing	None	None	4,889	-	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES**INFORMATION OF MAJOR SHAREHOLDERS
JUNE 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.