

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 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 March 31, 2020 and 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 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 March 31, 2020 and 2019, the combined assets of these subsidiaries were 10% (NT\$4,241,599 thousand) and 8% (NT\$3,086,606 thousand) of the Group's assets, respectively, and the combined liabilities of these subsidiaries were 3% (NT\$317,599 thousand) and 4% (NT\$450,189 thousand) of the Group's liabilities, respectively. For the three months ended March 31, 2020 and 2019, these subsidiaries' comprehensive income and loss were 2% (a gain of NT\$39,979 thousand) and 2% (a gain of NT\$22,374 thousand), respectively, of the Group's comprehensive income and loss. Furthermore, as stated in Note 13 to the consolidated financial statements, the Group's investments accounted for using the equity method as of March 31, 2020 and 2019 amounted to NT\$2,204,966 thousand and NT\$1,478,639 thousand, respectively, and the share of profit (loss) of these associates accounted for using the equity method for the three months ended March 31, 2020 and 2019 were NT\$435,084 thousand and NT\$(180,714) thousand, respectively. As stated in Note 35 to the consolidated financial statements, these investment amounts and the related information of the investees disclosed in the notes to the consolidated

financial statements were based on the unreviewed financial statements for the same reporting periods as those of the Corporation.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and associates accounted for using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of March 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Emphasis of Matter

As stated in Note 34 to the accompanying consolidated financial statements, the Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 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

May 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)

	March 31, 2020 (Reviewed)		December 31, 2019 (Audited)		March 31, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 10,258,694	25	\$ 10,205,257	27	\$ 14,196,380	36
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 28)	3,253,735	8	3,440,905	9	3,260,000	9
Financial assets at amortized cost (Notes 9 and 30)	76,104	-	56,273	-	68,365	-
Notes and accounts receivable						
Non-related parties (Note 10)	6,396,126	15	5,396,821	14	3,953,966	10
Related parties (Notes 10 and 29)	571,848	1	537,149	1	562,574	2
Other receivables (Note 10)	481,385	1	427,082	1	450,972	1
Current tax assets	51,343	-	45,499	-	31,998	-
Inventories (Note 11)	13,172,340	32	11,532,724	30	10,550,424	27
Prepayments	278,796	1	282,396	1	85,744	-
Other current assets	74,307	-	35,733	-	47,689	-
Total current assets	<u>34,614,678</u>	<u>83</u>	<u>31,959,839</u>	<u>83</u>	<u>33,208,112</u>	<u>85</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 28)	455,932	1	459,306	1	424,284	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Notes 8 and 28)	547,369	1	636,432	2	528,551	1
Investments accounted for using the equity method (Note 13)	2,228,893	5	1,644,159	4	1,502,182	4
Property, plant and equipment (Note 14)	3,391,041	8	3,282,950	8	2,997,916	8
Right-of-use assets (Note 15)	29,665	-	32,840	-	24,690	-
Intangible assets (Note 16)	254,553	1	268,026	1	143,963	-
Deferred tax assets	392,239	1	346,732	1	297,103	1
Guarantee deposits paid	6,744	-	6,496	-	4,766	-
Total non-current assets	<u>7,306,436</u>	<u>17</u>	<u>6,676,941</u>	<u>17</u>	<u>5,923,455</u>	<u>15</u>
TOTAL	<u>\$ 41,921,114</u>	<u>100</u>	<u>\$ 38,636,780</u>	<u>100</u>	<u>\$ 39,131,567</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ 302,250	1	\$ -	-	\$ 123,280	-
Contract liabilities	56,800	-	130,615	-	76,809	-
Notes and accounts payable						
Non-related parties	2,314,795	6	2,258,562	6	2,712,932	7
Related parties (Note 29)	1,419,346	3	1,384,097	4	3,753,365	10
Other payables (Note 18)	4,790,060	11	4,398,129	11	3,464,730	9
Tax payable	916,953	2	602,714	2	671,786	2
Lease liabilities (Note 15)	12,405	-	12,520	-	8,331	-
Other current liabilities (Note 19)	774,493	2	519,744	1	286,697	1
Total current liabilities	<u>10,587,102</u>	<u>25</u>	<u>9,306,381</u>	<u>24</u>	<u>11,097,930</u>	<u>29</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	89,712	-	21,930	-	-	-
Lease liabilities (Note 15)	17,704	-	20,702	-	16,287	-
Long-term deferred revenue	3,328	-	4,060	-	10,392	-
Net defined benefit liabilities (Note 20)	95,240	1	94,945	-	93,002	-
Guarantee deposits received	134	-	134	-	144	-
Total non-current liabilities	<u>206,118</u>	<u>1</u>	<u>141,771</u>	<u>-</u>	<u>119,825</u>	<u>-</u>
Total liabilities	<u>10,793,220</u>	<u>26</u>	<u>9,448,152</u>	<u>24</u>	<u>11,217,755</u>	<u>29</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 21 and 26)						
Share capital						
Common shares	1,970,740	5	1,970,740	5	1,970,740	5
Capital surplus	6,804,074	16	6,724,104	17	6,676,271	17
Retained earnings						
Legal reserve	3,850,715	9	3,850,715	10	3,418,903	9
Special reserve	380,927	1	380,927	1	-	-
Unappropriated earnings	18,308,906	44	16,411,959	43	16,110,327	41
Total retained earnings	22,540,548	54	20,643,601	54	19,529,230	50
Other equity	(240,234)	(1)	(176,125)	-	(288,058)	(1)
Total equity attributable to owners of the Corporation	<u>31,075,128</u>	<u>74</u>	<u>29,162,320</u>	<u>76</u>	<u>27,888,183</u>	<u>71</u>
NON-CONTROLLING INTERESTS	<u>52,766</u>	<u>-</u>	<u>26,308</u>	<u>-</u>	<u>25,629</u>	<u>-</u>
Total equity	<u>31,127,894</u>	<u>74</u>	<u>29,188,628</u>	<u>76</u>	<u>27,913,812</u>	<u>71</u>
TOTAL	<u>\$ 41,921,114</u>	<u>100</u>	<u>\$ 38,636,780</u>	<u>100</u>	<u>\$ 39,131,567</u>	<u>100</u>

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

(With Deloitte & Touche auditors' review report dated May 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 March 31			
	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 29)				
Gross sales	\$ 13,136,749	102	\$ 9,382,422	100
Less: Sales returns and allowances	<u>316,044</u>	<u>2</u>	<u>100,303</u>	<u>1</u>
Net sales	12,820,705	100	9,282,119	99
Other operating revenue	<u>45,998</u>	<u>-</u>	<u>60,897</u>	<u>1</u>
Total operating revenue	12,866,703	100	9,343,016	100
OPERATING COSTS (Notes 11, 23 and 29)	<u>8,951,985</u>	<u>70</u>	<u>7,248,323</u>	<u>78</u>
UNREALIZED GAIN ON TRANSACTIONS	<u>(49,097)</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>3,865,621</u>	<u>30</u>	<u>2,094,693</u>	<u>22</u>
OPERATING EXPENSES (Note 23)				
Marketing	167,874	1	120,678	2
General and administrative	199,849	1	120,245	1
Research and development	1,747,941	14	864,646	9
Reversal of expected credit losses (Note 10)	<u>(32,683)</u>	<u>-</u>	<u>(78,423)</u>	<u>(1)</u>
Total operating expenses	<u>2,082,981</u>	<u>16</u>	<u>1,027,146</u>	<u>11</u>
OPERATING INCOME	<u>1,782,640</u>	<u>14</u>	<u>1,067,547</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 23)	51,901	1	37,763	1
Other gains and losses (Note 23)	(30,533)	-	115,732	1
Financial costs (Note 23)	(566)	-	(257)	-
Share of gains (losses) of associates	<u>434,608</u>	<u>3</u>	<u>(179,867)</u>	<u>(2)</u>
Total non-operating income and expenses	<u>455,410</u>	<u>4</u>	<u>(26,629)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	2,238,050	18	1,040,918	11
INCOME TAX EXPENSE (Note 22)	<u>339,898</u>	<u>3</u>	<u>159,095</u>	<u>2</u>
NET PROFIT FOR THE PERIOD	<u>1,898,152</u>	<u>15</u>	<u>881,823</u>	<u>9</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized (loss) gain on investments in equity instruments at fair value through other comprehensive income	\$ (57,005)	(1)	\$ 76,144	1
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(10,544)	-	20,906	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>2,051</u>	<u>-</u>	<u>(4,181)</u>	<u>-</u>
Other comprehensive (loss) income for the period, net of income tax	<u>(65,498)</u>	<u>(1)</u>	<u>92,869</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,832,654</u>	<u>14</u>	<u>\$ 974,692</u>	<u>10</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Corporation	\$ 1,898,049	15	\$ 881,823	9
Non-controlling interests	<u>103</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,898,152</u>	<u>15</u>	<u>\$ 881,823</u>	<u>9</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Corporation	\$ 1,832,838	14	\$ 974,692	10
Non-controlling interests	<u>(184)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,832,654</u>	<u>14</u>	<u>\$ 974,692</u>	<u>10</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)				
Basic	<u>\$9.63</u>		<u>\$4.47</u>	
Diluted	<u>\$9.49</u>		<u>\$4.42</u>	

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

(With Deloitte & Touche auditors' review report dated May 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						Other Equity			
	Common Shares	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Non-controlling Interests	Total Equity
			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
Changes in non-controlling interests	-	-	-	-	-	-	-	-	27,250	27,250
Changes in percentage of ownership interests in subsidiaries	-	1,621	-	-	-	-	-	1,621	(1,621)	-
Net profit for the three months ended March 31, 2019	-	-	-	-	881,823	-	-	881,823	-	881,823
Other comprehensive income for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	16,725	76,144	92,869	-	92,869
BALANCE AT MARCH 31, 2019	<u>\$ 1,970,740</u>	<u>\$ 6,676,271</u>	<u>\$ 3,418,903</u>	<u>\$ -</u>	<u>\$ 16,110,327</u>	<u>\$ (51,183)</u>	<u>\$ (236,875)</u>	<u>\$ 27,888,183</u>	<u>\$ 25,629</u>	<u>\$ 27,913,812</u>
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
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	-	47,459	-	-	-	-	-	47,459	-	47,459
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(1,102)	-	1,102	-	-	-
Net profit for the three months ended March 31, 2020	-	-	-	-	1,898,049	-	-	1,898,049	103	1,898,152
Other comprehensive loss for the three months ended March 31, 2020, net of income tax	-	-	-	-	-	(8,206)	(57,005)	(65,211)	(287)	(65,498)
BALANCE AT MARCH 31, 2020	<u>\$ 1,970,740</u>	<u>\$ 6,804,074</u>	<u>\$ 3,850,715</u>	<u>\$ 380,927</u>	<u>\$ 18,308,906</u>	<u>\$ (120,705)</u>	<u>\$ (119,529)</u>	<u>\$ 31,075,128</u>	<u>\$ 52,766</u>	<u>\$ 31,127,894</u>

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 2,238,050	\$ 1,040,918
Adjustments for:		
Depreciation	84,334	66,172
Amortization	45,382	50,941
Expected credit losses reversed on trade receivables	(32,683)	(78,423)
Financial costs	566	257
Interest income	(16,438)	(13,975)
Dividend income	-	(6,803)
Compensation costs of employee share options	47,459	-
Share of (gain) loss of associates	(434,608)	179,867
Gains on disposal of property, plant and equipment	(4)	(871)
Loss on disposal of associates	1,109	-
(Reversal) write-down of inventories	(18,924)	411
Unrealized gain on transactions with associates	49,097	-
Net gain on foreign currency exchange	(63,560)	(6,704)
Recognition of refund liabilities	297,923	55,029
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	102,057	(89,455)
Notes and accounts receivable	(971,357)	809,521
Other receivables	(54,277)	(178,393)
Inventories	(1,620,675)	(2,974,181)
Prepayments	(3,780)	(50,189)
Other current assets	(38,574)	56,582
Contract liabilities	(73,815)	42,539
Notes and accounts payable	88,494	1,665,956
Other payables	398,503	(252,484)
Deferred revenue	(732)	(3,676)
Other current liabilities	(23,762)	(95,920)
Net defined benefit liabilities	295	175
Cash generated from operations	80	217,294
Interest paid	(301)	(169)
Income tax paid	(9,228)	(6,253)
Net cash (used in) generated from operating activities	(9,449)	210,872
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(19,831)	(1,148)
Purchase of financial assets at fair value through profit or loss	(3,892)	(92,379)
Proceeds from sale of financial assets at fair value through profit or loss	92,379	3,267
Acquisition of associates	(136,495)	(184,082)

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2020	2019
Payments for property, plant and equipment	\$ (201,493)	\$ (54,891)
Proceeds from disposal of property, plant and equipment	19	871
(Increase) decrease in refundable deposits	(248)	2,224
Payments for intangible assets	(31,913)	(42,280)
Interest received	16,565	14,395
Other dividends received	<u>-</u>	<u>6,803</u>
Net cash used in investing activities	<u>(284,909)</u>	<u>(347,220)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	301,700	123,332
Repayment of the principal portion of lease liabilities	(3,113)	(2,049)
Increase in non-controlling interests	<u>26,195</u>	<u>27,250</u>
Net cash generated from financing activities	<u>324,782</u>	<u>148,533</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>23,013</u>	<u>7,799</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,437	19,984
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>\$ 10,258,694</u>	<u>\$ 14,196,380</u>

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

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

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 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 May 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

New IFRSs	Effective Date Announced by IASB (Note)
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, 2022

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Please 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 novel coronavirus 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

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand	\$ 98	\$ 93	\$ 115
Checking accounts and demand deposits	7,276,374	7,672,079	9,225,560
Cash equivalents			
Time deposits with original maturities within 3 months	<u>2,982,222</u>	<u>2,533,085</u>	<u>4,970,705</u>
	<u>\$ 10,258,694</u>	<u>\$ 10,205,257</u>	<u>\$ 14,196,380</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Non-derivative financial assets - current</u>			
Financial assets mandatorily classified as FVTPL			
Beneficiary certificates - open-end funds	\$ 2,820,343	\$ 2,816,597	\$ 2,619,954
Domestic listed shares	433,392	529,538	460,358
Convertible bonds	<u>-</u>	<u>94,770</u>	<u>179,688</u>
	<u>\$ 3,253,735</u>	<u>\$ 3,440,905</u>	<u>\$ 3,260,000</u>
<u>Non-derivative financial assets - non-current</u>			
Financial assets mandatorily classified as FVTPL			
Private equity funds	\$ 45,387	\$ 45,408	\$ 47,256
Domestic unlisted shares	335,283	341,618	282,050
Overseas unlisted shares	<u>75,262</u>	<u>72,280</u>	<u>94,978</u>
	<u>\$ 455,932</u>	<u>\$ 459,306</u>	<u>\$ 424,284</u>

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

Investments in Equity Instruments at FVTOCI

	March 31, 2020	December 31, 2019	March 31, 2019
Domestic investments - unlisted shares	\$ 205,290	\$ 230,267	\$ 186,140
Overseas investments - unlisted shares	<u>342,079</u>	<u>406,165</u>	<u>342,411</u>
	<u>\$ 547,369</u>	<u>\$ 636,432</u>	<u>\$ 528,551</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

	March 31, 2020	December 31, 2019	March 31, 2019
Certificates of deposit	\$ 20,396	\$ 20,383	\$ 20,370
Time deposits with original maturities of more than 3 months	<u>55,708</u>	<u>35,890</u>	<u>47,995</u>
	<u>\$ 76,104</u>	<u>\$ 56,273</u>	<u>\$ 68,365</u>

As of March 31, 2020, December 31, 2019, and March 31, 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 30 for information relating to investments in financial assets at amortized cost pledged as security.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount - non-related parties	\$ 6,460,804	\$ 5,494,199	\$ 4,027,107
Gross carrying amount - related parties	<u>571,848</u>	<u>537,149</u>	<u>562,574</u>
	7,032,652	6,031,348	4,589,681
Less: Loss allowance	<u>(64,678)</u>	<u>(97,378)</u>	<u>(73,141)</u>
	<u>\$ 6,967,974</u>	<u>\$ 5,933,970</u>	<u>\$ 4,516,540</u>

(Continued)

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Other receivables</u>			
Income tax refund receivable	\$ 336,992	\$ 292,145	\$ 378,335
Convertible bonds redemption receivable	97,851	83,286	-
Factored accounts receivable	27,600	30,342	48,712
Others	<u>18,942</u>	<u>21,309</u>	<u>23,925</u>
	<u>\$ 481,385</u>	<u>\$ 427,082</u>	<u>\$ 450,972</u>
			(Concluded)

Trade Receivables

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

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

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

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

The following table details the loss allowance of trade receivables based on the Group's allowance matrix.

March 31, 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	\$ 5,836,753	\$ 612,642	\$ 11,409	\$ -	\$ -	\$ -	\$ 6,460,804
Loss allowance (lifetime expected credit losses)	<u>(20,683)</u>	<u>(42,854)</u>	<u>(1,141)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64,678)</u>
Amortized cost	<u>\$ 5,816,070</u>	<u>\$ 569,788</u>	<u>\$ 10,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,396,126</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>

March 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	\$ 3,729,566	\$ 263,181	\$ 5,799	\$ 4,481	\$ 4,615	\$ 19,465	\$ 4,027,107
Loss allowance (lifetime expected credit losses)	<u>(17,530)</u>	<u>(27,181)</u>	<u>(3,141)</u>	<u>(2,814)</u>	<u>(3,662)</u>	<u>(18,813)</u>	<u>(73,141)</u>
Amortized cost	<u>\$ 3,712,036</u>	<u>\$ 236,000</u>	<u>\$ 2,658</u>	<u>\$ 1,667</u>	<u>\$ 953</u>	<u>\$ 652</u>	<u>\$ 3,953,966</u>

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

	For the Three Months Ended March 31	
	2020	2019
Balance, beginning of the period	\$ 97,378	\$ 151,342
Less: Reversal of loss allowance	(32,683)	(78,423)
Foreign exchange gains and losses	<u>(17)</u>	<u>222</u>
Balance, end of the period	<u>\$ 64,678</u>	<u>\$ 73,141</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 three months ended March 31, 2020					
HSBC Bank	US\$ 2,108	US\$ 913	-	-	-
For the three months ended March 31, 2019					
HSBC Bank	US\$ 6,573	US\$ 1,581	-	-	-

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

11. INVENTORIES

	March 31, 2020	December 31, 2019	March 31, 2019
Raw materials	\$ 6,317,545	\$ 6,933,204	\$ 4,816,722
Work-in-process	4,638,784	2,672,047	4,571,283
Semi-finished goods	2,087,287	1,762,677	1,115,787
Finished goods	128,611	120,337	46,632
Merchandise	<u>113</u>	<u>44,459</u>	<u>-</u>
	<u>\$ 13,172,340</u>	<u>\$ 11,532,724</u>	<u>\$ 10,550,424</u>

The inventories recognized as costs of goods sold for the three months ended March 31, 2020 and 2019 were \$8,951,985 thousand and \$7,248,323 thousand, respectively.

The costs of goods sold for the three months ended March 31, 2020 and 2019 included reversals of inventory write-downs of \$18,924 thousand and write-downs of \$411 thousand, respectively. The reversals of previous write-downs resulted from an increase in market selling prices.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

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

Investor	Investee	Principal Activities	Proportion of Ownership (%)			Remark
			March 31, 2020	December 31, 2019	March 31, 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	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 26

(Continued)

Investor	Investee	Principal Activities	Proportion of Ownership (%)			Remark
			March 31, 2020	December 31, 2019	March 31, 2019	
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

(Concluded)

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

Remark 2: In 2019, the Corporation invested 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, the substantial transactions between the group entities were fully eliminated.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	March 31, 2020	December 31, 2019	March 31, 2019
<u>Unlisted shares</u>			
Kingston Solutions Inc.	\$ 1,041,089	\$ 965,294	\$ 1,099,938
Epostar Electronics (BVI) Corporation	269,165	-	180
Microtops Design Corporation (“Microtops”)	23,927	24,403	23,543
PMS Technology Corporation	18,123	17,962	17,997
Hefei Xinpeng Technology Co., Ltd.	323,165	245,507	178,916
HOSIN Global Electronics Co., Ltd. (SZ)	472,208	390,993	181,608
ProGrade Digital, Inc.	<u>81,216</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,228,893</u>	<u>\$ 1,644,159</u>	<u>\$ 1,502,182</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 March 31, 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 March 31, 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.

Except for Microtops, the calculation of the investments accounted for using the equity method and the Group’s share of profit or loss and other comprehensive income of those investments for the three months ended March 31, 2020 and 2019 were based on the financial statements that have not been reviewed.

14. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2020	December 31, 2019	March 31, 2019
Land	\$ 958,807	\$ 958,807	\$ 813,738
Land improvements	2,749	3,043	3,927
Buildings	1,723,850	1,739,428	1,769,052
Testing equipment	480,018	491,869	369,261
Office equipment	24,610	24,106	19,489
Mechanical equipment	42,375	44,256	-
Other equipment	18,832	21,441	22,449
Construction in progress	<u>139,800</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,391,041</u>	<u>\$ 3,282,950</u>	<u>\$ 2,997,916</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 three months ended March 31, 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

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Carrying amounts</u>			
Buildings	\$ 29,039	\$ 32,058	\$ 23,438
Transportation equipment	<u>626</u>	<u>782</u>	<u>1,252</u>
	<u>\$ 29,665</u>	<u>\$ 32,840</u>	<u>\$ 24,690</u>
		For the Three Months Ended March 31	
		2020	2019
Depreciation charge for right-of-use assets			
Buildings		\$ 3,018	\$ 1,984
Transportation equipment		<u>157</u>	<u>157</u>
		<u>\$ 3,175</u>	<u>\$ 2,141</u>

Except for the depreciation, the Group had no significant additions, subleases, and impairment losses recognized on right-of-use assets for the three months ended March 31, 2020.

b. Lease liabilities

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Carrying amounts</u>			
Current	\$ 12,405	\$ 12,520	\$ 8,331
Non-current	\$ 17,704	\$ 20,702	\$ 16,287

Range of discount rate for lease liabilities was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Buildings	2.55%-2.85%	2.55%-2.85%	2.6%
Transportation equipment	2.6%	2.6%	2.6%

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

d. Other lease information

The Group leases certain transportation equipment, office equipment and dormitory which qualify as short-term leases and certain office equipment which qualifies 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

	March 31, 2020	December 31, 2019	March 31, 2019
Computer software	\$ 171,096	\$ 173,480	\$ 100,231
Technology license fees	<u>83,457</u>	<u>94,546</u>	<u>43,732</u>
	<u>\$ 254,553</u>	<u>\$ 268,026</u>	<u>\$ 143,963</u>

Except for amortization, the Group had no significant additions, disposals, and impairment of intangible assets for the three months ended March 31, 2020 and 2019.

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

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

17. BORROWINGS

Short-term Borrowings

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Unsecured borrowings</u>			
Bank loans	<u>\$ 302,250</u>	<u>\$ -</u>	<u>\$ 123,280</u>
Interest rate (%)	0.67%-2.08%	-	2.84%-2.85%
Due date	2020.4.30	-	2019.4.19

18. OTHER PAYABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Salaries and bonuses payable	\$ 3,536,012	\$ 3,221,135	\$ 2,231,874
Others	<u>1,254,048</u>	<u>1,176,994</u>	<u>1,232,856</u>
	<u>\$ 4,790,060</u>	<u>\$ 4,398,129</u>	<u>\$ 3,464,730</u>

19. OTHER CURRENT LIABILITIES

	March 31, 2020	December 31, 2019	March 31, 2019
Refund liabilities	\$ 693,364	\$ 419,506	\$ 186,674
Payables for purchases of equipment	16,398	35,810	19,357
Receipts under custody	29,784	29,245	21,841
Others	<u>34,947</u>	<u>35,183</u>	<u>58,825</u>
	<u>\$ 774,493</u>	<u>\$ 519,744</u>	<u>\$ 286,697</u>

20. RETIREMENT BENEFIT PLANS

Employee benefits expenses for the three months ended March 31, 2020 and 2019 in respect of the Group's defined benefit retirement plans were \$804 thousand and \$676 thousand, respectively, and were calculated using the actuarially determined pension cost discount rate at the end of the prior financial years ended December 31, 2019 and 2018.

21. EQUITY

a. Share capital

Common shares

	March 31, 2020	December 31, 2019	March 31, 2019
Number of shares authorized (in thousands)	<u>280,000</u>	<u>280,000</u>	<u>230,000</u>
Shares authorized	<u>\$ 2,800,000</u>	<u>\$ 2,800,000</u>	<u>\$ 2,300,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,074</u>	<u>197,074</u>
Shares issued	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>

On November 13, 2018, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on November 28, 2018, after the FSC approved this plan as shown in the FSC's issued document No. 1070344165. In accordance with Article 56(2) i of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2018, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within the year starting from the date the issuer received the notification of approval from the authorities. The employee share options were not issued and are not to be issued after November 27, 2019 in accordance with the regulations.

On November 11, 2019, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on November 22, 2019, after the FSC approved this plan as shown in the FSC's issued document No. 1080336954. In accordance with Article 56(2) i of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2019, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within the year starting from the date the issuer received the notification of approval from the authorities. Refer to Note 25 for information relating to issuance.

On March 27, 2020, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on April 10, 2020, after the Financial Supervisory Commission (FSC) approved this plan as shown in the FSC's issued document No. 1090337137. In accordance with Article 56(2) i of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2020, shares can be issued as a whole or in parts depending on the Corporation's actual needs within the year starting from the date the issuer received the notification of approval from the authorities.

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

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

b. Capital surplus

	March 31, 2020	December 31, 2019	March 31, 2019
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)			
Issuance of common shares	\$ 6,237,434	\$ 6,237,434	\$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758	148,758
<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	288,231
<u>May not be used for any purpose</u>			
Employee share options	<u>47,459</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,804,074</u>	<u>\$ 6,724,104</u>	<u>\$ 6,676,271</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, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, refer to Note 23 (f) "employees' compensation and remuneration of directors and supervisors".

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

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

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

The appropriations of earnings for 2019 and 2018 were proposed in the Corporation's board of directors meeting on March 16, 2020, and resolved in the shareholders' meeting on 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

The appropriation of earnings for 2019 is subject to the resolution of the shareholders in the shareholders' meeting to be held on June 3, 2020.

22. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Three Months Ended March 31	
	2020	2019
Current tax		
In respect of the current period	\$ 315,582	\$ 149,730
Deferred tax		
In respect of the current period	<u>24,316</u>	<u>9,365</u>
Income tax expense recognized in profit or loss	<u>\$ 339,898</u>	<u>\$ 159,095</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 March 31	
	2020	2019
<u>Deferred income tax</u>		
Recognized in other comprehensive income		
Translation of foreign operations	<u>\$ 2,051</u>	<u>\$ (4,181)</u>
Total income tax recognized in other comprehensive income	<u>\$ 2,051</u>	<u>\$ (4,181)</u>

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

23. 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 March 31	
	2020	2019
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily classified as FVTPL	\$ (102,057)	\$ 89,455
Net foreign exchange gains	72,630	25,444
Others	<u>(1,106)</u>	<u>833</u>
	<u>\$ (30,533)</u>	<u>\$ 115,732</u>

b. Other income

	For the Three Months Ended March 31	
	2020	2019
Interest income		
Bank deposits	\$ 10,966	\$ 13,963
Others	<u>5,472</u>	<u>12</u>
	16,438	13,975
Rental income	407	348
Dividend income	-	6,803
Others	<u>35,056</u>	<u>16,637</u>
	<u>\$ 51,901</u>	<u>\$ 37,763</u>

c. Finance costs

	For the Three Months Ended March 31	
	2020	2019
Interest on bank loans	\$ 349	\$ 88
Interest on lease liabilities	<u>217</u>	<u>169</u>
	<u>\$ 566</u>	<u>\$ 257</u>

d. Depreciation and amortization

	For the Three Months Ended March 31	
	2020	2019
Property, plant and equipment	\$ 81,159	\$ 64,031
Right-of-use assets	3,175	2,141
Intangible assets	<u>45,382</u>	<u>50,941</u>
	<u>\$ 129,716</u>	<u>\$ 117,113</u>
An analysis of depreciation by function		
Operating costs	\$ 16,525	\$ 11,733
Operating expenses	<u>67,809</u>	<u>54,439</u>
	<u>\$ 84,334</u>	<u>\$ 66,172</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 45,382</u>	<u>\$ 50,941</u>

e. Employee benefits expense

	For the Three Months Ended March 31	
	2020	2019
Short-term employee benefits	<u>\$ 1,615,301</u>	<u>\$ 772,552</u>
Post-employment benefits		
Defined contribution plan	26,526	22,352
Defined benefit plan	<u>804</u>	<u>676</u>
	<u>27,330</u>	<u>23,028</u>
Share-based payment		
Equity-settled	<u>47,459</u>	<u>-</u>
Other employee benefits		
Employee welfare	16,942	12,679
Food stipend	<u>13,751</u>	<u>11,311</u>
	<u>30,693</u>	<u>23,990</u>
	<u>\$ 1,720,783</u>	<u>\$ 819,570</u>

(Continued)

	For the Three Months Ended March 31	
	2020	2019
Employee benefits		
Recognized in operating costs	\$ 70,794	\$ 56,081
Recognized in operating expenses	<u>1,649,989</u>	<u>763,489</u>
	<u>\$ 1,720,783</u>	<u>\$ 819,570</u>
		(Concluded)

f. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months ended March 31, 2020 and 2019, the employees' compensation and remuneration of directors and supervisors were as follows:

Accrual rate

	For the Three Months Ended March 31	
	2020	2019
Employees' compensation	9.71%	10.18%
Remuneration of directors and supervisors	0.97%	1.02%

Amount

	For the Three Months Ended March 31	
	2020	2019
Employees' compensation	<u>\$ 243,125</u>	<u>\$ 119,339</u>
Remuneration of directors and supervisors	<u>\$ 24,312</u>	<u>\$ 11,934</u>

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, that 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.

g. Gains or losses on foreign currency exchange

	For the Three Months Ended March 31	
	2020	2019
Foreign exchange gains	\$ 86,421	\$ 50,093
Foreign exchange losses	<u>(13,791)</u>	<u>(24,649)</u>
Net gains	<u>\$ 72,630</u>	<u>\$ 25,444</u>

24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended March 31	
	2020	2019
Basic earnings per share	<u>\$ 9.63</u>	<u>\$ 4.47</u>
Diluted earnings per share	<u>\$ 9.49</u>	<u>\$ 4.42</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 Period

	For the Three Months Ended March 31	
	2020	2019
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 1,898,049</u>	<u>\$ 881,823</u>
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 1,898,049</u>	<u>\$ 881,823</u>

Shares

	(In Thousands of Shares)	
	For the Three Months Ended March 31	
	2020	2019
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074
Effect of potentially dilutive common shares:		
Employees' compensation	<u>3,006</u>	<u>2,254</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>200,080</u>	<u>199,328</u>

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

25. SHARE-BASED PAYMENT

a. Employee share option plan

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

Information on employee share options is as follows:

	For the Three Months Ended March 31, 2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at March 31	<u>6,000</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:

March 31, 2020

Range of exercise price (\$)	\$340
Weighted-average remaining contractual life (in years)	2.75

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 was \$47,459 thousand for the three months ended March 31, 2020.

26. 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 Three Months Ended March 31	
	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>

27. CAPITAL MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

March 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 433,392	\$ -	\$ -	\$ 433,392
Domestic unlisted shares	-	-	335,283	335,283
Overseas unlisted shares	-	-	75,262	75,262
Domestic private equity funds	-	-	45,387	45,387
Beneficiary certificates - open-end funds	<u>2,820,343</u>	<u>-</u>	<u>-</u>	<u>2,820,343</u>
	<u>\$ 3,253,735</u>	<u>\$ -</u>	<u>\$ 455,932</u>	<u>\$ 3,709,667</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 205,290	\$ 205,290
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>342,079</u>	<u>342,079</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 547,369</u>	<u>\$ 547,369</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>

March 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 460,358	\$ -	\$ -	\$ 460,358
Domestic unlisted shares	-	-	282,050	282,050
Overseas unlisted shares	-	-	94,978	94,978
Domestic private equity funds	-	-	47,256	47,256
Beneficiary certificates - open-end funds	2,619,954	-	-	2,619,954
Convertible bonds	<u>-</u>	<u>-</u>	<u>179,688</u>	<u>179,688</u>
	<u>\$ 3,080,312</u>	<u>\$ -</u>	<u>\$ 603,972</u>	<u>\$ 3,684,284</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 186,140	\$ 186,140
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>342,411</u>	<u>342,411</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 528,551</u>	<u>\$ 528,551</u>

There were no transfers between Levels 1 and 2 for the three months ended March 31, 2020 and 2019.

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

For the three months ended March 31, 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	(21)	(2,391)	(7,245)	-	(9,657)
Recognized in other comprehensive income					
Unrealized gain on financial assets at FVTOCI	-	-	-	(57,005)	(57,005)
Purchases	-	-	3,892	-	3,892
Sales	-	(92,379)	-	(32,058)	(124,437)
Balance at March 31, 2020	<u>\$ 45,387</u>	<u>\$ -</u>	<u>\$ 410,545</u>	<u>\$ 547,369</u>	<u>\$ 1,003,301</u>

For the three months ended March 31, 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	(110)	2,021	(3,395)	-	(1,484)
Recognized in other comprehensive income					
Unrealized gain on financial assets at FVTOCI	-	-	-	76,144	76,144
Purchases	-	92,379	-	-	92,379
Effects of foreign currency exchange differences	-	-	-	2,010	2,010
Balance at March 31, 2019	<u>\$ 47,256</u>	<u>\$ 179,688</u>	<u>\$ 377,028</u>	<u>\$ 528,551</u>	<u>\$ 1,132,523</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 March 31, 2019, the historical volatilities used were 49.88% and 60.47%, respectively.
- b) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference of the unlisted equity securities and analogous subjects into consideration, the value of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease in the discount for the lack of marketability used in isolation would result in an increase in fair value.

	March 31	
	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.

	March 31	
	2020	2019
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	2%	2%
WACC	13.99%-16.30%	14.7%

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

	March 31	
	2020	2019
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets</u>			
Financial assets at FVTPL			
Mandatorily classified as FVTPL	\$ 3,709,667	\$ 3,900,211	\$ 3,684,284
Financial assets at amortized cost (Note 1)	17,784,157	16,622,582	19,232,257
Financial assets at FVTOCI			
Equity instruments	547,369	636,432	528,551
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 2)	8,826,451	8,040,788	10,054,307

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 short-term loans, notes payable, trade payables, and other payables.

d. Financial risk management objectives and policies

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

1) Market risk

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

a) Foreign currency risk

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

For the carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period, refer to Note 33.

Sensitivity analysis

The Group was mainly exposed to the US dollar.

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

	Impact of USD	
	For the Three Months Ended	
	March 31	
	2020	2019
Profit or loss	\$ 422,558	\$ 127,528

b) Interest rate risk

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

The carrying 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:

	March 31, 2020	December 31, 2019	March 31, 2019
Fair value interest rate risk			
Financial assets	\$ 3,058,326	\$ 2,589,358	\$ 5,039,070
Financial liabilities	271,909	33,222	24,618
Cash flow interest rate risk			
Financial assets	7,276,374	7,672,079	9,225,560
Financial liabilities	60,450	-	123,280

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 three months ended March 31, 2020 and 2019 would increase by \$180 thousand and \$228 thousand, respectively.

c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the three months ended March 31, 2020 and 2019 would have increased/decreased by \$37,097 thousand and \$36,843 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 three months ended March 31, 2020 and 2019 would have increased/decreased by \$5,474 thousand and \$5,286 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 March 31, 2020, December 31, 2019 and March 31, 2019, the Group had available unutilized short-term bank loan facilities of \$6,715,750 thousand, \$7,858,400 thousand and \$7,807,320 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.

	March 31, 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	\$ 3,906,978	\$ 2,666,338	\$ 2,867,838	\$ -	\$ -
Lease liabilities	1,110	2,220	9,737	18,300	-
Variable interest rate instruments	60,552	-	-	-	-
Fixed interest rate instruments	<u>242,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,210,716</u>	<u>\$ 2,668,558</u>	<u>\$ 2,877,575</u>	<u>\$ 18,300</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>
	March 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	\$ 6,526,971	\$ 1,637,854	\$ 2,437,988	\$ -	\$ -
Variable interest rate instruments	123,562	-	-	-	-
Lease liabilities	<u>739</u>	<u>1,479</u>	<u>6,654</u>	<u>16,774</u>	<u>-</u>
	<u>\$ 6,651,272</u>	<u>\$ 1,639,333</u>	<u>\$ 2,444,642</u>	<u>\$ 16,774</u>	<u>\$ -</u>

e. Information on transfers of financial assets

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

29. RELATED PARTY TRANSACTIONS

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

a. Related parties and their relationships

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related party
Kioxia America, Inc.	Other related party (Note 1)
Kioxia Corporation	Other related party (Note 2)
Kioxia Taiwan Corporation	Other related party (Note 3)
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
United Power Research Technology Corporation	Other related party
Kingston Solutions Inc.	Associate
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Shenzhen EpoStar Electronics Limited Co.	Associate (Note 4)
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 Memory Taiwan Corporation was renamed as Kioxia Taiwan Corporation on October 1, 2019.

Note 4: 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	For the Three Months Ended March 31	
	2020	2019
Associates	\$ 264,097	\$ 165,549
Other related parties	<u>521,271</u>	<u>560,771</u>
	<u>\$ 785,368</u>	<u>\$ 726,320</u>

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

c. Operating costs

1) Purchase of goods

Related Party Category	For the Three Months Ended March 31	
	2020	2019
Associates	\$ 186,490	\$ 324,507
Other related parties		
Kioxia Taiwan Corporation	2,464,681	4,962,860
Others	<u>538,929</u>	<u>372,792</u>
	<u>\$ 3,190,100</u>	<u>\$ 5,660,159</u>

2) Processing costs

Related Party Category	For the Three Months Ended March 31	
	2020	2019
Associates	\$ 13	\$ 79
Other related parties	<u>593,005</u>	<u>617,307</u>
	<u>\$ 593,018</u>	<u>\$ 617,386</u>

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

d. Receivables from related parties

Related Party Category	March 31, 2020	December 31, 2019	March 31, 2019
Associates	\$ 173,277	\$ 246,653	\$ 151,897
Other related parties	<u>398,571</u>	<u>290,496</u>	<u>410,677</u>
	<u>\$ 571,848</u>	<u>\$ 537,149</u>	<u>\$ 562,574</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	March 31, 2020	December 31, 2019	March 31, 2019
Associates	\$ 55,742	\$ 29,796	\$ 317,528
Other related parties			
Kioxia Taiwan Corporation	872,843	1,034,293	2,906,437
Others	<u>490,761</u>	<u>320,008</u>	<u>529,400</u>
	<u>\$ 1,419,346</u>	<u>\$ 1,384,097</u>	<u>\$ 3,753,365</u>

The outstanding trade payables to related parties are unsecured.

f. Compensation of key management personnel

	For the Three Months Ended March 31	
	2020	2019
Short-term employee benefits	\$ 138,851	\$ 46,952
Post-employment benefits	729	585
Share-based payments	19,466	-
Other employee benefits	<u>1,608</u>	<u>964</u>
	<u>\$ 160,654</u>	<u>\$ 48,501</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 March 31, 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 its capital increase by cash. As of March 31, 2020, the Group's shareholding percentage in Phisontech Electronics Taiwan Corp. was 100%.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

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

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

Significant Commitments

	March 31, 2020	December 31, 2019	March 31, 2019
Unused letters of credit	<u>\$ 1,660,000</u>	<u>\$ 1,660,000</u>	<u>\$ 1,670,000</u>

32. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On April 6, 2020, the board of directors of the Corporation's subsidiary, Phisontech Electronics Taiwan Corp., resolved to carry out a shares exchange to acquire 100% ownership in United Power Research Technology Corp. at \$13 per share. The subscription base date is tentatively scheduled as July 1, 2020.

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

In Thousands of New Taiwan Dollars and Foreign Currencies

March 31, 2020			
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 316,616	30.225	\$ 9,569,732
USD (USD:CNY)	7,844	7.085	237,071
CNY (CNY:NTD)	34,280	4.255	145,863
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	91,453	30.225	2,764,178
December 31, 2019			
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
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			
USD (USD:NTD)	85,796	29.9800	2,572,158

	March 31, 2019		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD (USD:NTD)	\$ 221,353	30.8200	\$ 6,822,092
USD (USD:CNY)	12,027	6.7335	370,677
CNY (CNY:NTD)	33,487	4.5800	153,371

Financial liabilities

Monetary items			
USD (USD:NTD)	164,416	30.8200	5,067,297

For the three months ended March 31, 2020 and 2019, realized and unrealized net foreign exchange gains were \$72,630 thousand and \$25,444 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

34. OTHER SIGNIFICANT EVENTS

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.

35. ADDITIONAL DISCLOSURES

a. Information about significant transactions and b. investees:

- 1) Financing provided to others. (None)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)
- 4) Marketable securities acquired 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)
- 11) 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)

36. SEGMENT INFORMATION

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

a. Segment revenue and results

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

	Segment Revenue		Segment Profit (Loss)	
	For the Three Months Ended		For the Three Months Ended	
	March 31		March 31	
	2020	2019	2020	2019
Department that designs and sells flash memory controllers	\$ 12,866,703	\$ 9,343,016	\$ 1,782,384	\$ 1,067,701
Investment department	-	-	256	(154)
Total operating segments	<u>\$ 12,866,703</u>	<u>\$ 9,343,016</u>	1,782,640	1,067,547
Other gains and losses			(30,533)	115,732
Share of gains (losses) of associates			434,608	(179,867)
Other income			51,901	37,763
Financial costs			<u>(566)</u>	<u>(257)</u>
Profit before tax			<u>\$ 2,238,050</u>	<u>\$ 1,040,918</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the three months ended March 31, 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)

MARCH 31, 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	March 31, 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	\$ 205,847	-	\$ 205,847	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	205,673	-	205,673	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	214,987	-	214,987	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	152,407	-	152,407	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	205,098	-	205,098	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	16,113	202,964	-	202,964	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	202,021	-	202,021	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	12,070	191,950	-	191,950	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	151,599	-	151,599	Note 3
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	14,809	201,444	-	201,444	Note 3
	Taishin Ta-Chong Money Market Fund	-	Financial assets at FVTPL - current	14,102	201,375	-	201,375	Note 3
	TCB Taiwan Money Market Fund	-	Financial assets at FVTPL - current	19,716	201,315	-	201,315	Note 3
	Capital Money Market Fund	-	Financial assets at FVTPL - current	12,416	201,365	-	201,365	Note 3
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	71,089	1.32	71,089	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	362,303	9.96	362,303	Note 4
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	18,441	0.67	18,441	Note 5
	AppWorks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	8,850	232,220	11.11	232,220	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	19,286	5.61	19,286	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	1,292	13,977	18.75	13,977	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	28,351	19.00	28,351	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	69,697	17.98	69,697	Note 5
	GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	6.70	-	-
	Ironyun Incorporated (preference shares)	-	Financial assets at FVTOCI - non-current	5,000	-	5.64	-	-
	Gospal Ltd.	-	Financial assets at FVTOCI - non-current	811,857	2,538	3.40	2,538	Note 5
	H3 Platform, Inc.	-	Financial assets at FVTOCI - non-current	18,400	12,456	12.14	12,456	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	36,227	17.16	36,227	Note 5
	ACR Synergy Tech Corp.	-	Financial assets at FVTPL - non-current	900	19,800	8.09	19,800	Note 6
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	10,143	3.39	10,143	Note 7
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Financial assets at FVTPL - non-current	50,000	50,000	1.08	50,000	Note 7
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	45,387	3.81	45,387	Note 5

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	March 31, 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	\$ 30,555	-	\$ 30,555	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,535	-	30,535	Note 3
	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	5,616	73,016	16.12	73,016	Note 8
	Fresco Logic, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,250	-	2.23	-	-
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	42,117	1.18	42,117	Note 5
	Translink Capital Partners IV L.P.	-	Financial assets at FVTPL - non-current	560	14,704	0.59	14,704	Note 5
	Liquid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	235,405	7.04	235,405	Note 7
	UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	29,223	2.51	29,223	Note 7
	Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	34,226	2.60	34,226	Note 5
	RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	16,087	1.97	16,087	Note 7
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	3,980	50,175	-	50,175	Note 3
	FSITC Money Market	-	Financial assets at FVTPL - current	280	50,159	-	50,159	Note 3
	Taishin Ta-Chong Money Market Fund	-	Financial assets at FVTPL - current	3,513	50,165	-	50,165	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,263	-	10,263	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	5,816	60,446	-	60,446	Note 3
	<u>Common shares</u>							
	My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-

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 March 31, 2020.

Note 4: The calculation of the market value was based on the closing price as of March 31, 2020.

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

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

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

Note 8: The board of directors of United Power Research Technology Corp. resolved on April 6, 2020 that the shares exchange with Phisontech Electronics Taiwan Corp. was at \$13 per share.

Note 9: 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 THREE MONTHS ENDED MARCH 31, 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	\$ 578,960

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

TABLE 3**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 THREE MONTHS ENDED MARCH 31, 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	\$ 109,959	1	Net 30 days after monthly closing	None	None	\$ (55,742)	(1)	-
	Kioxia America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	531,379	6	Net 30 days after receipt date	None	None	(205,189)	(5)	-
	Kioxia Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	2,464,681	28	Net 30 days after monthly closing	None	None	(872,843)	(23)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	502,948	6	Net 30 days after monthly closing	None	None	(240,880)	(6)	-
	Kioxia Corporation	The Corporation's legal entity board of directors	Sale	(211,679)	(2)	Net 60 days after monthly closing	None	None	143,050	2	-
	Kingston Solutions Inc.	Investee company accounted for using the equity method	Sale	(193,100)	(2)	Net 60 days after monthly closing	None	None	125,609	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(285,182)	(2)	Net 45 days after monthly closing	None	None	230,023	3	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(160,164)	(1)	Net 30 days after monthly closing	None	None	93,668	1	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

MARCH 31, 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	\$ 230,023	5.53	\$ -	-	\$ 68,988	\$ -
	Kingston Solutions Inc.	Investee company accounted for using the equity method	125,609	4.81	-	-	82,935	-
	Kioxia Corporation	The Corporation's legal entity board of directors	143,050	7.87	-	-	55,341	-

Note: As of April 30, 2020.

TABLE 5**PHISON ELECTRONICS CORP. AND SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE THREE MONTHS ENDED MARCH 31, 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	\$ 160,164	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	93,668	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	7,915	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	2,260	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	4,377	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	4,258	Based on regular terms	-
		Phison Technology Inc.	1	Other payables	6,749	Based on regular terms	-
		Phison Technology Inc.	1	Sales expenses	12,678	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 THREE MONTHS ENDED MARCH 31, 2020
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2020			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				March 31, 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	\$ 1,041,089	\$ 379,496	\$ 124,892	Investee company accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	342,564	(11,995)	(11,995)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	674,756	(202)	(202)	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	23,927	(971)	(476)	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	578,960	(1,557)	(1,557)	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	32,189	144	144	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	1,158,472	1,158,472	37,100,000	100.00	1,126,215	2,290	2,290	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	1,488	759	759	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	44.21	269,165	632,384	274,603	Investee company accounted for using the equity method
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	100,026	40	40	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	374,905	31,303	31,303	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	393,214	393,214	13,000,000	100.00	561,194	32,107	32,107	Subsidiary
	ProGrade Digital Inc.	America	Flash memory related products and market development	83,439	-	2,785,000	33.55	81,216	(6,972)	(2,339)	Investee company accounted for using the equity method

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2020			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				March 31, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	\$ 9,000	\$ 9,000	900,000	100.00	\$ 58,550	\$ (285)	\$ -	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	18,123	483	-	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	18,410	(12,654)	-	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	1,124,321	4,437	-	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	94,094	(8)	-	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	240,606	30,390	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	391,989	391,989	12,950,000	100.00	559,772	32,096	-	Sub-subsidiary

(Concluded)

TABLE 7

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
 FOR THE THREE MONTHS ENDED MARCH 31, 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 March 31, 2020	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of March 31, 2020	Accumulated Inward Remittance of Earnings as of March 31, 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	\$ (1,928)	\$ 4,297	\$ -	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	4,374	1,116,498	-	b (2)
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	b	182,825	-	-	182,825	100.00	(1,774)	167,956	-	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	4,777	273,627	-	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	(6,060)	323,165	-	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	43,827	472,208	-	b (1), b (2)

(Continued)

Accumulated Investments in Mainland China as of March 31, 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)	\$ 18,676,736

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)

TABLE 8**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 THREE MONTHS ENDED MARCH 31, 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	\$ 160,164	1	Net 30 days after monthly closing	None	None	\$ 93,668	1	-
	Hefei DATANG Storage Technology Co., Ltd.	The subsidiary of the second-tier subsidiary's associate	Sale	27,271	-	Net 60 days after receipt date	None	None	21,768	-	-
	Hosin Global Electronics Co., Ltd. (SZ)	The reinvestment of the second-tier subsidiary	Sale	1,042	-	Net 45 days after monthly closing	None	None	1,040	-	-

TABLE 9**PHISON ELECTRONICS CORP. AND SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS****MARCH 31, 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 Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.