

# **Phison Electronics Corp. and Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2021 and 2020 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

### **Introduction**

We have reviewed the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprise the consolidated balance sheets as of September 30, 2021 and 2020, the consolidated statements of comprehensive income for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2021 and 2020, and the related notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### **Scope of Review**

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

### **Basis for Qualified Conclusion**

As disclosed in Note 12 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements were not reviewed. As of September 30, 2021 and 2020, the combined assets of these subsidiaries were 11% (NT\$6,007,573 thousand) and 11% (NT\$4,622,038 thousand) of the Group's assets, respectively, and the combined liabilities of these subsidiaries were 2% (NT\$395,003 thousand) and 7% (NT\$662,583 thousand) of the Group's liabilities, respectively. For the three months and the nine months ended September 30, 2021 and 2020, these subsidiaries' comprehensive income were 4% (a gain of NT\$105,306 thousand), 1% (a gain of NT\$22,156 thousand), 0.2% (a gain of NT\$12,282 thousand), and 3% (a gain of NT\$146,290 thousand), respectively, of the Group's comprehensive income. Furthermore, as stated in Note 13 to the consolidated financial statements, the Group's investments accounted for using the equity method as of September 30, 2021 and 2020 amounted to NT\$3,723,164 thousand and NT\$1,282,621 thousand, respectively, and the share of profit of these associates accounted for using the equity method for the three months and the nine months

ended September 30, 2021 and 2020 amounted to a gain of NT\$45,695 thousand, a gain of NT\$39,312 thousand, a gain of NT\$187,706 thousand, and a gain of NT\$461,866 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 present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2021 and 2020, its consolidated financial performance for the three months ended September 30, 2021 and 2020 and the nine months ended September 30, 2021 and 2020, and its consolidated cash flows for the nine months ended September 30, 2021 and 2020, 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 Mr. K.S. Pua (“Mr. Pua”) and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted Mr. Pua and others for their alleged violation of the Securities and Exchange Act and related provisions. On October 29, 2021, Taiwan Hsinchu District Court rendered judgment. In accordance with the judgment, the court sentenced Mr. Pua to 1 year and 10 months imprisonment (which can be commuted into a fine) for causing public official to make false information in public document; the court further sentenced Mr. Pua to 2-year imprisonment for violating Article 171 Item 1 Sub-Item 1 of Securities and Exchange Act. Mr. Pua will discuss with attorneys to determine corresponding matters and appeal this case to the court of second instance. The Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, the Securities and Futures Investors Protection Center (“Investors Protection Center”) filed two civil actions, respectively: (1) the first civil action was to remove Mr. K.S. Pua as director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim the amount of compensation damage of NT\$697,389 thousand from the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). These two civil actions were derivative litigations arising from the Case. The Corporation had already appointed civil defense attorneys and filed a motion to dismiss these two civil actions with the court. Therefore, 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 Li-Wen Kuo and Pei-De Chen.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

November 5, 2021

Notice to Readers

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

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2021 (Reviewed)		December 31, 2020 (Audited)		September 30, 2020 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 11,366,451	21	\$ 14,961,122	31	\$ 12,945,910	31
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	1,106,237	2	5,494,720	12	3,262,145	8
Financial assets at amortized cost (Notes 9 and 31)	824,941	2	293,860	1	335,590	1
Accounts receivable						
Non-related parties (Note 10)	6,999,268	13	5,348,420	11	4,965,372	12
Related parties (Notes 10 and 30)	2,468,809	5	669,281	1	602,485	1
Other receivables (Note 10)	643,792	1	305,918	1	255,335	1
Current tax assets	8,551	-	4,635	-	54,439	-
Inventories (Note 11)	17,466,232	33	10,141,479	21	11,237,763	27
Prepayments	109,131	-	74,217	-	198,668	1
Other current assets	4,066	-	33,273	-	57,260	-
<b>Total current assets</b>	<b>40,997,478</b>	<b>77</b>	<b>37,326,925</b>	<b>78</b>	<b>33,914,967</b>	<b>82</b>
<b>NON-CURRENT ASSETS</b>						
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	461,991	1	437,236	1	448,300	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 8)	572,860	1	360,304	1	468,454	1
Investments accounted for using the equity method (Note 13)	3,723,164	7	4,007,874	8	1,282,621	3
Property, plant and equipment (Notes 14 and 31)	5,793,790	11	4,646,540	10	4,370,938	11
Right-of-use assets (Note 15)	35,295	-	32,384	-	25,530	-
Intangible assets (Note 16)	272,595	1	313,894	1	267,591	1
Deferred tax assets	432,963	1	375,960	1	416,906	1
Other non-current assets	655,594	1	62,835	-	12,229	-
<b>Total non-current assets</b>	<b>11,948,252</b>	<b>23</b>	<b>10,237,027</b>	<b>22</b>	<b>7,292,569</b>	<b>18</b>
<b>TOTAL</b>	<b>\$ 52,945,730</b>	<b>100</b>	<b>\$ 47,563,952</b>	<b>100</b>	<b>\$ 41,207,536</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Notes 17 and 31)	\$ 1,583,395	3	\$ 1,480,480	3	\$ 757,500	2
Contract liabilities (Note 22)	183,102	-	35,553	-	48,168	-
Accounts payable						
Non-related parties	3,063,395	6	2,166,195	5	1,624,757	4
Related parties (Note 30)	1,685,781	3	1,289,722	3	1,184,818	3
Other payables (Note 18)	9,013,528	17	6,045,010	13	4,928,896	12
Tax payable	935,221	2	93,608	-	173,390	1
Lease liabilities (Note 15)	22,271	-	16,420	-	12,094	-
Current portion of long-term borrowings (Notes 17 and 31)	30,831	-	30,486	-	30,372	-
Other current liabilities (Note 19)	991,268	2	605,208	1	557,622	1
<b>Total current liabilities</b>	<b>17,508,792</b>	<b>33</b>	<b>11,762,682</b>	<b>25</b>	<b>9,317,617</b>	<b>23</b>
<b>NON-CURRENT LIABILITIES</b>						
Long-term borrowings (Notes 17 and 31)	172,469	1	195,636	-	203,300	1
Deferred tax liabilities	161,505	-	325,441	1	112,614	-
Lease liabilities (Note 15)	13,648	-	16,212	-	13,577	-
Long-term deferred revenue	-	-	-	-	3,204	-
Net defined benefit liabilities	104,301	-	103,528	-	95,806	-
Guarantee deposits received	3,027	-	4,986	-	4,886	-
<b>Total non-current liabilities</b>	<b>454,950</b>	<b>1</b>	<b>645,803</b>	<b>1</b>	<b>433,387</b>	<b>1</b>
<b>Total liabilities</b>	<b>17,963,742</b>	<b>34</b>	<b>12,408,485</b>	<b>26</b>	<b>9,751,004</b>	<b>24</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)</b>						
Common shares	1,970,740	4	1,970,740	4	1,970,740	5
Capital surplus	6,915,831	13	6,586,173	14	6,625,367	16
Retained earnings						
Legal reserve	5,530,308	10	4,306,531	9	4,306,531	11
Special reserve	155,568	-	176,125	-	176,125	-
Unappropriated earnings	20,513,934	39	22,281,239	47	18,531,463	45
Total retained earnings	26,199,810	49	26,763,895	56	23,014,119	56
Other equity	(104,393)	-	(165,341)	-	(213,434)	(1)
<b>Total equity attributable to owners of the Corporation</b>	<b>34,981,988</b>	<b>66</b>	<b>35,155,467</b>	<b>74</b>	<b>31,396,792</b>	<b>76</b>
<b>NON-CONTROLLING INTERESTS</b>						
Total equity	34,981,988	66	35,155,467	74	31,456,532	76
<b>TOTAL</b>	<b>\$ 52,945,730</b>	<b>100</b>	<b>\$ 47,563,952</b>	<b>100</b>	<b>\$ 41,207,536</b>	<b>100</b>

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

(With Deloitte & Touche auditors' review report dated November 5, 2021)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
(Notes 22 and 30)								
Gross sales	\$ 17,124,711	101	\$ 11,813,712	99	\$ 46,335,063	102	\$ 35,855,253	101
Less: Sales returns and allowances	<u>258,698</u>	<u>1</u>	<u>(45,613)</u>	<u>-</u>	<u>786,890</u>	<u>2</u>	<u>342,436</u>	<u>1</u>
Net sales	16,866,013	100	11,859,325	99	45,548,173	100	35,512,817	100
Other operating revenue	<u>60,533</u>	<u>-</u>	<u>74,672</u>	<u>1</u>	<u>176,299</u>	<u>-</u>	<u>142,732</u>	<u>-</u>
Total operating revenue	16,926,546	100	11,933,997	100	45,724,472	100	35,655,549	100
OPERATING COSTS (Notes 11, 23 and 30)	<u>11,550,946</u>	<u>68</u>	<u>9,236,298</u>	<u>77</u>	<u>31,333,353</u>	<u>69</u>	<u>26,355,679</u>	<u>74</u>
(UNREALIZED) REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>(19,671)</u>	<u>-</u>	<u>50,023</u>	<u>-</u>	<u>(66,870)</u>	<u>-</u>	<u>(13,677)</u>	<u>-</u>
GROSS PROFIT	<u>5,355,929</u>	<u>32</u>	<u>2,747,722</u>	<u>23</u>	<u>14,324,249</u>	<u>31</u>	<u>9,286,193</u>	<u>26</u>
OPERATING EXPENSES								
(Note 23)								
Marketing	275,786	2	148,682	1	742,491	2	454,129	1
General and administrative	197,480	1	192,808	2	619,217	1	556,810	2
Research and development	2,085,357	12	1,330,534	11	5,738,402	12	4,317,520	12
Expected credit gains (Note 10)	<u>(55,913)</u>	<u>-</u>	<u>(64,566)</u>	<u>(1)</u>	<u>(482)</u>	<u>-</u>	<u>(45,029)</u>	<u>-</u>
Total operating expenses	<u>2,502,710</u>	<u>15</u>	<u>1,607,458</u>	<u>13</u>	<u>7,099,628</u>	<u>15</u>	<u>5,283,430</u>	<u>15</u>
OPERATING INCOME	<u>2,853,219</u>	<u>17</u>	<u>1,140,264</u>	<u>10</u>	<u>7,224,621</u>	<u>16</u>	<u>4,002,763</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES (Note 23)								
Other income	48,993	-	77,838	1	116,008	-	194,770	1
Other gains and losses	(90,282)	-	765,465	6	130,495	-	697,138	2
Financial costs	(4,579)	-	(1,383)	-	(15,512)	-	(2,406)	-
Share of profits of associates (Note 13)	45,695	-	39,312	-	187,706	1	461,866	1
Interest income	<u>8,082</u>	<u>-</u>	<u>6,549</u>	<u>-</u>	<u>26,341</u>	<u>-</u>	<u>35,221</u>	<u>-</u>
Total non-operating income and expenses	<u>7,909</u>	<u>-</u>	<u>887,781</u>	<u>7</u>	<u>445,038</u>	<u>1</u>	<u>1,386,589</u>	<u>4</u>
PROFIT BEFORE INCOME TAX	2,861,128	17	2,028,045	17	7,669,659	17	5,389,352	15
INCOME TAX EXPENSE (Note 24)	<u>477,281</u>	<u>3</u>	<u>188,464</u>	<u>2</u>	<u>1,334,191</u>	<u>3</u>	<u>466,861</u>	<u>1</u>
NET PROFIT FOR THE PERIOD	<u>2,383,847</u>	<u>14</u>	<u>1,839,581</u>	<u>15</u>	<u>6,335,468</u>	<u>14</u>	<u>4,922,491</u>	<u>14</u>

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	\$ 48,363	-	\$ (20,556)	-	\$ 107,551	-	\$ 485	-
Share of other comprehensive income of associates accounted for using the equity method	-	-	-	-	98,327	-	-	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	2,812	-	15,077	-	(118,057)	-	(25,863)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	(2,828)	-	-	-	5,139	-
Other comprehensive income (loss) for the period, net of income tax	51,175	-	(8,307)	-	87,821	-	(20,239)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 2,435,022</u>	<u>14</u>	<u>\$ 1,831,274</u>	<u>15</u>	<u>\$ 6,423,289</u>	<u>14</u>	<u>\$ 4,902,252</u>	<u>14</u>
NET PROFIT ATTRIBUTED TO:								
Owners of the Corporation	\$ 2,383,847	14	\$ 1,833,764	15	\$ 6,335,468	14	\$ 4,915,106	14
Non-controlling interests	-	-	5,817	-	-	-	7,385	-
	<u>\$ 2,383,847</u>	<u>14</u>	<u>\$ 1,839,581</u>	<u>15</u>	<u>\$ 6,335,468</u>	<u>14</u>	<u>\$ 4,922,491</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:								
Owners of the Corporation	\$ 2,435,022	14	\$ 1,824,655	15	\$ 6,423,289	14	\$ 4,895,171	14
Non-controlling interests	-	-	6,619	-	-	-	7,081	-
	<u>\$ 2,435,022</u>	<u>14</u>	<u>\$ 1,831,274</u>	<u>15</u>	<u>\$ 6,423,289</u>	<u>14</u>	<u>\$ 4,902,252</u>	<u>14</u>
EARNINGS PER SHARE (NT\$, Note 25)								
Basic	<u>\$ 12.10</u>		<u>\$ 9.30</u>		<u>\$ 32.15</u>		<u>\$ 24.94</u>	
Diluted	<u>\$ 11.75</u>		<u>\$ 9.20</u>		<u>\$ 31.15</u>		<u>\$ 24.58</u>	

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

(With Deloitte & Touche auditors' review report dated November 5, 2021)

(Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Corporation						Exchange Differences on Translating Foreign Operations	Other Equity Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Legal Reserve					
			Special Reserve								
BALANCE AT JANUARY 1, 2020	\$ 1,970,740	\$ 6,724,104	\$ 3,850,715	\$ 380,927	\$ 16,411,959	\$ (112,499)	\$ (63,626)	\$ 29,162,320	\$ 26,308	\$ 29,188,628	
Appropriation of the earnings	-	-	455,816	-	(455,816)	-	-	-	-	-	
Legal reserve	-	-	-	-	-	-	-	-	-	-	
Reversal of special reserve	-	-	-	(204,802)	204,802	-	-	-	-	-	
Cash dividends	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)	
Changes in capital surplus from investments in associates accounted for using the equity method	-	(237,823)	-	-	-	-	-	(237,823)	94	(237,729)	
Changes in percentage of ownership interests in subsidiaries	-	(333)	-	-	-	-	-	(333)	333	-	
Recognition of employee share options	-	139,419	-	-	-	-	-	139,419	-	139,419	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	25,924	25,924	
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	17,374	-	(17,374)	-	-	-	
Net profit for the nine months ended September 30, 2020	-	-	-	-	4,915,106	-	-	4,915,106	7,385	4,922,491	
Other comprehensive (loss) income for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	(20,420)	485	(19,935)	(304)	(20,239)	
<b>BALANCE AT SEPTEMBER 30, 2020</b>	<b>\$ 1,970,740</b>	<b>\$ 6,625,367</b>	<b>\$ 4,306,531</b>	<b>\$ 176,125</b>	<b>\$ 18,531,463</b>	<b>\$ (132,919)</b>	<b>\$ (80,515)</b>	<b>\$ 31,396,792</b>	<b>\$ 59,740</b>	<b>\$ 31,456,532</b>	
BALANCE AT JANUARY 1, 2021	\$ 1,970,740	\$ 6,586,173	\$ 4,306,531	\$ 176,125	\$ 22,281,239	\$ (37,091)	\$ (128,250)	\$ 35,155,467	\$ -	\$ 35,155,467	
Appropriation of the earnings	-	-	1,223,777	-	(1,223,777)	-	-	-	-	-	
Legal reserve	-	-	-	-	-	-	-	-	-	-	
Reversal of special reserve	-	-	-	(20,557)	20,557	-	-	-	-	-	
Cash dividends	-	-	-	-	(6,503,442)	-	-	(6,503,442)	-	(6,503,442)	
Changes in capital surplus from investments in associates accounted for using the equity method	-	154,900	-	-	(422,984)	-	-	(268,084)	-	(268,084)	
Recognition of employee share options	-	174,758	-	-	-	-	-	174,758	-	174,758	
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	26,873	-	(26,873)	-	-	-	
Net profit for the nine months ended September 30, 2021	-	-	-	-	6,335,468	-	-	6,335,468	-	6,335,468	
Other comprehensive (loss) income for the nine months ended September 30, 2021, net of income tax	-	-	-	-	-	(118,057)	205,878	87,821	-	87,821	
<b>BALANCE AT SEPTEMBER 30, 2021</b>	<b>\$ 1,970,740</b>	<b>\$ 6,915,831</b>	<b>\$ 5,530,308</b>	<b>\$ 155,568</b>	<b>\$ 20,513,934</b>	<b>\$ (155,148)</b>	<b>\$ 50,755</b>	<b>\$ 34,981,988</b>	<b>\$ -</b>	<b>\$ 34,981,988</b>	

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

(With Deloitte & Touche auditors' review report dated November 5, 2021)



# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 7,669,659	\$ 5,389,352
Adjustments for:		
Depreciation	341,448	276,320
Amortization	189,732	144,787
Expected credit gains	(482)	(45,029)
Net (gain) loss on financial assets at fair value through profit or loss	(169,353)	92,139
Financial costs	15,512	2,406
Interest income	(26,341)	(35,221)
Dividend income	(71,623)	(82,471)
Compensation costs of employee share options	174,758	139,419
Share of profits of associates	(187,706)	(461,866)
Loss on disposal of property, plant and equipment	-	2,128
Gain on disposal of investments	-	(966,250)
(Reversal of) write-down of inventories	(129,726)	202,559
Unrealized gain on transactions with associates	66,870	13,677
Unrealized (gain) loss on foreign currency exchange	(11,082)	66,831
Gains on modification of lease	(5)	(468)
Recognition of refund liabilities	495,871	211,593
Net changes related to operating assets and liabilities		
Accounts receivable	(3,421,061)	359,330
Other receivables	(252,560)	171,750
Inventories	(7,195,027)	98,539
Prepayments	(34,914)	68,399
Other current assets	29,149	(20,122)
Contract liabilities	147,549	(82,447)
Accounts payable	1,285,407	(783,274)
Other payables	1,023,738	511,670
Other current liabilities	(127,783)	(157,220)
Net defined benefit liabilities	773	861
Deferred revenue	-	(856)
Cash (used in) generated from operations	(187,197)	5,116,536
Interest paid	(14,691)	(2,335)
Income tax paid	(717,485)	(878,781)
Net cash (used in) generated from operating activities	(919,373)	4,235,420

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2021	2020
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through other comprehensive income	\$ (105,005)	\$ (3,825)
Proceeds from sale of financial assets at fair value through other comprehensive income	-	144,484
Proceeds of the capital reduction of financial assets at fair value through other comprehensive income	-	246
Purchase of financial assets at amortized cost	(3,652,681)	(279,317)
Proceeds from sale of financial assets at amortized cost	3,142,742	-
Purchase of financial assets at fair value through profit or loss	(203,338)	(13,892)
Proceeds from sale of financial assets at fair value through profit or loss	4,721,119	92,379
Proceeds of the capital reduction of financial assets at fair value through profit or loss	15,300	19,140
Acquisition of associates	-	(217,727)
Net cash inflow on disposal of associates	-	1,776,295
Net cash outflow on acquisition of subsidiaries	-	(316,430)
Net cash outflow on disposal of subsidiaries	(71,226)	-
Proceeds from capital reduction of investments accounted for using the equity method	54,457	-
Payments for property, plant and equipment	(1,412,762)	(676,160)
Proceeds from disposal of property, plant and equipment	-	37
Increase in refundable deposits	(520,134)	(5,678)
Payments for intangible assets	(148,444)	(143,812)
Increase in prepayments for equipment	(116,134)	-
Interest received	25,390	35,609
Dividends received from associates	71,313	-
Other dividends received	<u>58,251</u>	<u>82,471</u>
Net cash generated from investing activities	<u>1,858,848</u>	<u>493,820</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	96,670	730,560
Repayments of long-term borrowings	(22,822)	(99,150)
Decrease in guarantee deposits	(1,959)	(354)
Repayments of the principal portion of lease liabilities	(15,305)	(12,041)
Dividends paid	(4,532,702)	(2,561,962)
Increase in non-controlling interests	<u>-</u>	<u>25,924</u>
Net cash used in financing activities	<u>(4,476,118)</u>	<u>(1,917,023)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<u>(58,028)</u>	<u>(71,564)</u>

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2021	2020
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (3,594,671)	\$ 2,740,653
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	<u>14,961,122</u>	<u>10,205,257</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>\$ 11,366,451</u>	<u>\$ 12,945,910</u>

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

(With Deloitte & Touche auditors' review report dated November 5, 2021)

(Concluded)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 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 for flash memory controllers design and the flash peripheral application integration design and manufacturing businesses.

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

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

### 2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on November 5, 2021.

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

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

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

- b. The IFRSs endorsed by the FSC for application starting from 2022

New IFRSs	Effective Date Announced by IASB
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 2)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 3)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 4)

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

Note 2: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 3: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except that deferred taxes will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

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

##### **Basis of Preparation**

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

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

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

##### **Basis of Consolidation**

The principles for the preparation of the interim consolidated financial statements are consistent with that of the consolidated financial statements for the year ended December 31, 2020.

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, 2020.

##### **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, 2020.

The Group considers the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates in cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

## 6. CASH AND CASH EQUIVALENTS

	September 30, 2021	December 31, 2020	September 30, 2020
Cash on hand	\$ 125	\$ 126	\$ 147
Checking accounts and demand deposits	5,154,543	10,490,173	9,578,131
Cash equivalents			
Time deposits with original maturities within 3 months	<u>6,211,783</u>	<u>4,470,823</u>	<u>3,367,632</u>
	<u>\$ 11,366,451</u>	<u>\$ 14,961,122</u>	<u>\$ 12,945,910</u>

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Non-derivative financial assets - current</u>			
Financial assets mandatorily classified as FVTPL			
Beneficiary certificates - open-end funds	\$ 473,741	\$ 4,989,343	\$ 2,836,569
Domestic listed shares	<u>632,496</u>	<u>505,377</u>	<u>425,576</u>
	<u>\$ 1,106,237</u>	<u>\$ 5,494,720</u>	<u>\$ 3,262,145</u>
<u>Non-derivative financial assets - non-current</u>			
Financial assets mandatorily classified as FVTPL			
Private equity funds	\$ 40,325	\$ 42,033	\$ 43,882
Domestic listed shares	25,560	-	-
Domestic unlisted shares	299,168	314,214	333,529
Overseas unlisted shares	<u>96,938</u>	<u>80,989</u>	<u>70,889</u>
	<u>\$ 461,991</u>	<u>\$ 437,236</u>	<u>\$ 448,300</u>

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

### Investments in Equity Instruments at FVTOCI

	September 30, 2021	December 31, 2020	September 30, 2020
Domestic unlisted shares	\$ 208,510	\$ 139,069	\$ 151,198
Overseas unlisted shares	<u>364,350</u>	<u>221,235</u>	<u>317,256</u>
	<u>\$ 572,860</u>	<u>\$ 360,304</u>	<u>\$ 468,454</u>

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

## 9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

	September 30, 2021	December 31, 2020	September 30, 2020
Segregated foreign exchange deposit account for Offshore Funds (Note)	\$ 784,482	\$ 253,451	\$ 258,968
Certificates of deposit	40,459	40,409	40,409
Time deposits with original maturities of more than 3 months	<u>-</u>	<u>-</u>	<u>36,213</u>
	<u>\$ 824,941</u>	<u>\$ 293,860</u>	<u>\$ 335,590</u>

As of September 30, 2021, the interest rate for time deposits with original maturities of more than 3 months was 1.75%. The Group assessed that the expected credit risk of above financial assets was not material because the credit risk has not increased significantly since initial recognition.

Refer to Note 31 for information relating to investments in financial assets at amortized cost pledged as security.

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



## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount - non-related parties	\$ 7,039,895	\$ 5,389,529	\$ 5,021,872
Gross carrying amount - related parties (Note 30)	<u>2,468,809</u>	<u>669,281</u>	<u>602,485</u>
	9,508,704	6,058,810	5,624,357
Less: Loss allowance	<u>(40,627)</u>	<u>(41,109)</u>	<u>(56,500)</u>
	<u>\$ 9,468,077</u>	<u>\$ 6,017,701</u>	<u>\$ 5,567,857</u>
<u>Other receivables</u>			
Tax refunds receivable	\$ 504,508	\$ 258,092	\$ 192,204
Factored accounts receivable	41,269	15,790	36,508
Others	<u>98,015</u>	<u>32,036</u>	<u>26,623</u>
	<u>\$ 643,792</u>	<u>\$ 305,918</u>	<u>\$ 255,335</u>

### Trade Receivables

The average credit period of sales of goods is 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 (non-related parties) based on the Group's allowance matrix.

September 30, 2021

	<b>Not Past Due</b>	<b>Less than 2 Months</b>	<b>2 to 3 Months</b>	<b>3 to 4 Months</b>	<b>4 to 5 Months</b>	<b>Over 5 Months</b>	<b>Total</b>
Gross carrying amount	\$ 6,557,931	\$ 472,556	\$ 501	\$ 656	\$ -	\$ 8,251	\$ 7,039,895
Loss allowance (lifetime expected credit losses)	<u>(13,856)</u>	<u>(18,040)</u>	<u>(183)</u>	<u>(297)</u>	<u>-</u>	<u>(8,251)</u>	<u>(40,627)</u>
Amortized cost	<u>\$ 6,544,075</u>	<u>\$ 454,516</u>	<u>\$ 318</u>	<u>\$ 359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,999,268</u>

December 31, 2020

	<b>Not Past Due</b>	<b>Less than 2 Months</b>	<b>2 to 3 Months</b>	<b>3 to 4 Months</b>	<b>4 to 5 Months</b>	<b>Over 5 Months</b>	<b>Total</b>
Gross carrying amount	\$ 5,070,972	\$ 311,402	\$ 7,128	\$ 27	\$ -	\$ -	\$ 5,389,529
Loss allowance (lifetime expected credit losses)	<u>(18,516)</u>	<u>(17,414)</u>	<u>(5,156)</u>	<u>(23)</u>	<u>-</u>	<u>-</u>	<u>(41,109)</u>
Amortized cost	<u>\$ 5,052,456</u>	<u>\$ 293,988</u>	<u>\$ 1,972</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,348,420</u>

September 30, 2020

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

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance, beginning of the period	\$ 41,109	\$ 97,378
Amounts reversed	(482)	(45,029)
Acquisitions through business combinations (Note 27)	<u>-</u>	<u>4,151</u>
Balance, end of the period	<u>\$ 40,627</u>	<u>\$ 56,500</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) (%)
<u>September 30, 2021</u>					
HSBC Bank	US\$ 1,706	US\$ 1,482	\$ -	\$ -	-
<u>December 31, 2020</u>					
HSBC Bank	US\$ 690	US\$ 554	-	-	-
<u>September 30, 2020</u>					
HSBC Bank	US\$ 1,487	US\$ 1,255	-	-	-

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

## 11. INVENTORIES

	September 30, 2021	December 31, 2020	September 30, 2020
Raw materials	\$ 7,903,747	\$ 5,298,782	\$ 5,959,716
Work-in-process	6,444,438	3,525,646	3,968,263
Semi-finished goods	2,944,594	1,267,154	1,218,249
Finished goods	173,453	49,897	89,781
Merchandise	-	-	1,754
	<u>\$ 17,466,232</u>	<u>\$ 10,141,479</u>	<u>\$ 11,237,763</u>

The costs of inventories recognized as costs of goods sold for the three months and nine months ended September 30, 2021 and 2020 were \$11,550,946 thousand, \$9,236,298 thousand, \$31,333,353 thousand and \$26,355,679 thousand, respectively.

The costs of goods sold for the three months and nine months ended September 30, 2021 and 2020 included inventory write-downs of \$84,037 thousand, reversals of inventory write-downs of \$83,244 thousand, reversals of inventory write-downs of \$129,726 thousand and inventory write-downs of \$202,559 thousand, respectively. The reversals of previous write-downs resulted from an increase in market selling prices.

## 12. SUBSIDIARIES

### a. Subsidiaries included in the consolidated financial statements

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

Investor	Investee	Principal Activities	Proportion of Ownership (%)			Remark
			September 30, 2021	December 31, 2020	September 30, 2020	
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.	Investment and trade	100.00	100.00	100.00	-
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	-	-	100.00	Remark 1
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	-
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	100.00	-
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	100.00	-
	Regis Investment (Samoa) Limited	Investment	100.00	100.00	100.00	-
Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	-	-	Remark 2
	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	100.00	-
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic products and technical support service and rendering of related services	-	-	95.49	Remark 3
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	Remark 3
	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	-	100.00	Remarks 2 and 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	Remark 4
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100.00	100.00	100.00	-
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	100.00	100.00	100.00	-
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100.00	100.00	100.00	-
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100.00	100.00	100.00	Remark 5

Remark 1: The company ended its operations in October 2020 and completed the liquidation procedures.

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

Remark 3: In August 2020, the board of directors resolved that Core Storage Electronic (Samoa) Limited disposed 46.48% ownership of Hefei Core Storage Electronic Limited and the disposal transaction was settled in November 2020. As losing the control of Hefei Core Storage Electronic Limited and its subsidiaries (the group of Hefei Core Storage Electronic), the Group was no longer to include the group of Hefei Core Storage Electronic in the consolidated financial statements. And then, the Group accounted the residual ownership of Hefei Core Storage Electronic Limited as the investments accounted for using the equity method (as associate). Refer to Note 28 in the consolidated financial statements for the year Ended December 31, 2020 for related information. In November 2020 and February 2021, the Group subscribed the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of Group's ownership in Hefei Core Storage Electronic Limited. Refer to Note 13(d) for the information.

Remark 4: The company ended its operations in March 2021 and the liquidation procedures is in progress.

Remark 5: The Group acquired 100% equity of Super Storage Technology Corporation in July 2020.

Remark 6: 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	September 30, 2021	December 31, 2020	September 30, 2020
<u>Unlisted shares</u>			
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,118,159	\$ 1,973,587	\$ 484,745
Epostar Electronics (BVI) Corporation	231,708	269,809	264,166
Hefei Xinpeng Technology Co., Ltd.	140,462	161,207	308,556
ProGrade Digital, Inc.	106,137	88,400	89,061
Nextorage Corporation	102,933	98,233	94,047
Microtops Design Corporation	23,765	22,977	23,734
Hefei Core Storage Electronic Limited	-	1,393,661	-
PMS Technology Corporation	-	-	18,312
	<u>\$ 3,723,164</u>	<u>\$ 4,007,874</u>	<u>\$ 1,282,621</u>

- a. Refer to Tables 6 and 7 for the nature of activities, principal place of business and country of incorporation of the associates.
- b. The Group invested JPY294,000 thousand in Nextorage Corporation, US\$2,785 thousand in ProGrade Digital, Inc., and CNY20,000 thousand in Hefei Xinpeng Technology Co., Ltd in 2020. As of September 30, 2021, the Group's percentages of ownership in Nextorage Corporation, ProGrade Digital, Inc., and Hefei Xinpeng Technology Co., Ltd. were 49%, 32.01% and 24.23%, respectively.
- c. The Group disposed of its investment in Kingston Solutions Inc. to Kingston Technology Corporation, a non-related party, with \$1,781,640 thousand in September 2020, and recognized a gain on the disposal of investment of \$967,348 thousand.

- d. The Group subscribed 54,500 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of 24.59% ownership (the amount of contribution is CNY54,500 thousand) in Hefei Core Storage Electronic Limited in November 2020. In addition, the Group subscribed 54,095 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of residual 24.41% ownership (the amount of contribution is CNY54,095 thousand) in Hefei Core Storage Electronic Limited in February 2021. As of September 30, 2021, the Group's percentage of ownership in HOSIN Global Electronics Co., Ltd. (SZ) was 43.32%.
- e. For the nine months ended September 30, 2021 and 2020, the investments accounted for using the equity method and the Group's share of profit or loss and other comprehensive income of those investments were based on the financial statements that have not been reviewed.

#### 14. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2021	December 31, 2020	September 30, 2020
Land	\$ 1,144,737	\$ 1,144,737	\$ 1,144,737
Land improvements	1,175	1,865	2,160
Buildings	2,039,021	2,085,112	2,100,628
Testing equipment	544,256	485,962	512,993
Office equipment	55,420	33,768	28,774
Mechanical equipment	166,958	103,466	76,397
Other equipment	99,623	79,233	78,707
Construction in progress	<u>1,742,600</u>	<u>712,397</u>	<u>426,542</u>
	<u>\$ 5,793,790</u>	<u>\$ 4,646,540</u>	<u>\$ 4,370,938</u>

- a. 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 projected construction period is from March 2020 to December 2021. In addition, the Corporation's board of directors resolved on November 12, 2020 to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Corporation. The total price of the project was approximately \$829,000 thousand. The Corporation financed the construction with its own funds. The construction period is from February 2021 to March 2022.
- b. The Group acquired Super Storage Technology Corporation in July 2020. Refer to Note 27 for information of acquiring the property, plant and equipment through business combination.
- c. Property, plant and equipment pledged as collaterals for bank borrowings was disclosed in Note 31.

Except for the recognition of depreciation and aforementioned a and b, the Group had no significant additions to, disposals of, and impairment of property, plant and equipment for the nine months ended September 30, 2021 and 2020.

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	3-7 years
Office equipment	3-7 years
Mechanical equipment	1-6 years
Other equipment	2-15 years

## 15. LEASE ARRANGEMENTS

### a. Right-of-use assets

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>	
<u>Carrying amount</u>				
Buildings	\$ 33,036	\$ 27,169	\$ 20,063	
Transportation equipment	615	1,106	537	
Other assets	<u>1,644</u>	<u>4,109</u>	<u>4,930</u>	
	<u>\$ 35,295</u>	<u>\$ 32,384</u>	<u>\$ 25,530</u>	
	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Depreciation charge for right-of-use assets				
Buildings	\$ 4,548	\$ 2,209	\$ 12,737	\$ 10,155
Transportation equipment	95	156	492	469
Other assets	<u>821</u>	<u>822</u>	<u>2,465</u>	<u>1,644</u>
	<u>\$ 5,464</u>	<u>\$ 3,187</u>	<u>\$ 15,694</u>	<u>\$ 12,268</u>

Except for the depreciation, the Group had no significant additions, subleases, and impairment losses recognized on right-of-use assets for the nine months ended September 30, 2021 and 2020.

### b. Lease liabilities

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
<u>Carrying amount</u>			
Current	<u>\$ 22,271</u>	<u>\$ 16,420</u>	<u>\$ 12,094</u>
Non-current	<u>\$ 13,648</u>	<u>\$ 16,212</u>	<u>\$ 13,577</u>

Range of discount rates for lease liabilities was as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Buildings	0.60%-4.00%	2.08%-4.00%	2.08%-2.60%
Transportation equipment	0.58%-2.08%	0.58%-2.60%	2.60%
Other assets	2.08%	2.08%	2.08%

c. Other lease information

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

## 16. INTANGIBLE ASSETS

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Computer software	\$ 228,196	\$ 246,830	\$ 201,108
Technology license fees	<u>44,399</u>	<u>67,064</u>	<u>66,483</u>
	<u>\$ 272,595</u>	<u>\$ 313,894</u>	<u>\$ 267,591</u>

Except for the acquisition through business combination (Note 27) and amortization, the Group had no significant additions, disposals, and impairment of intangible assets for the nine months ended September 30, 2021 and 2020.

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

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

## 17. BORROWINGS

a. Short-term borrowings

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
<u>Unsecured borrowings</u>			
Bank loans	<u>\$ 1,553,395</u>	<u>\$ 1,480,480</u>	<u>\$ 757,500</u>
<u>Secured borrowings (Note 31)</u>			
Bank loans	<u>30,000</u>	<u>-</u>	<u>-</u>
Short-term borrowings	<u>\$ 1,583,395</u>	<u>\$ 1,480,480</u>	<u>\$ 757,500</u>
Annual interest rates	0.47%-1.07%	0.57%-1.07%	0.58%-1.07%



b. Long-term borrowings

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
<u>Secured borrowings (Note 31)</u>			
Bank loans	\$ 203,300	\$ 226,122	\$ 233,672
Less: Current portions	<u>(30,831)</u>	<u>(30,486)</u>	<u>(30,372)</u>
Long-term borrowings	<u>\$ 172,469</u>	<u>\$ 195,636</u>	<u>\$ 203,300</u>
Annual interest rates	1.50%	1.50%	1.50%
Maturity date	January 2028	January 2028	January 2028

**18. OTHER PAYABLES**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Salaries and bonuses payable	\$ 5,920,621	\$ 5,033,901	\$ 3,770,215
Dividends payable	1,970,740	-	-
Others	<u>1,122,167</u>	<u>1,011,109</u>	<u>1,158,681</u>
	<u>\$ 9,013,528</u>	<u>\$ 6,045,010</u>	<u>\$ 4,928,896</u>

**19. OTHER CURRENT LIABILITIES**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Refund liabilities	\$ 824,356	\$ 490,929	\$ 485,316
Payables for purchases of equipment	48,481	30,499	13,597
Receipts under custody	63,223	42,321	35,985
Others	<u>55,208</u>	<u>41,459</u>	<u>22,724</u>
	<u>\$ 991,268</u>	<u>\$ 605,208</u>	<u>\$ 557,622</u>

**20. RETIREMENT BENEFIT PLANS**

Employee benefits expenses for the three months and the nine months ended September 30, 2021 and 2020 in respect of the Group's defined benefit retirement plans were \$768 thousand, \$808 thousand, \$2,303 thousand and \$2,416 thousand, respectively, and were calculated using the actuarially determined pension cost discount rate at the end of the prior financial years ended December 31, 2020 and 2019.

## 21. EQUITY

### a. Common shares

	September 30, 2021	December 31, 2020	September 30, 2020
Number of shares authorized (in thousands)	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</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 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, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2019, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

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 FSC approved this plan as shown in the FSC's issued document No. 1090337137. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2020, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

On September 22, 2021, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on October 4, 2021, after the FSC approved this plan as shown in the FSC's issued document No. 1100359311. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2021, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

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

Of the Corporation's authorized capital shares, 29,000 thousand shares were reserved for the issuance of employee share options.

Refer to Note 26 for information relating to actual outstanding employee share options.

b. Capital surplus

	September 30, 2021	December 31, 2020	September 30, 2020
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>			
Issuance of common shares	\$ 6,237,434	\$ 6,237,434	\$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758	148,758
<u>May only be used to offset a deficit</u>			
Expired share options	227	227	227
Changes in percentage of ownership interests in subsidiaries (2)	1,944	1,944	2,036
Share of changes in capital surplus of associates	154,900	-	97,493
<u>May not be used for any purpose</u>			
Employee share options	<u>372,568</u>	<u>197,810</u>	<u>139,419</u>
	<u>\$ 6,915,831</u>	<u>\$ 6,586,173</u>	<u>\$ 6,625,367</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

The amendments to the Corporation's Articles of Incorporation (the "Articles") were approved by the Corporation's shareholders in its meeting held on July 26, 2021, which stipulate that earnings distribution or offsetting of losses may be made on a half-yearly basis of the fiscal year.

Under the dividend policy as set forth in the Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, estimating and retaining the employees' and directors' remuneration, setting aside as legal reserve 10% of the remaining profit until the accumulated legal capital reserve equals to the paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with the beginning balance of undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan. Where the aforementioned earnings, legal reserves, and capital reserves are distributed in cash, the Corporation's board of directors is authorized to approve the distribution by a resolution approved by a majority vote of the directors at a meeting attended by over two-thirds of the Corporation's board of directors and report to the shareholders' meeting. Where they are distributed by issuing new shares, it shall be resolved at the shareholders' meeting. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after the amendment, refer to Note 23(g) "employees' compensation and remuneration of directors and supervisors".

The Corporation's dividend policy complies with the laws and regulations and the Articles, taking into account the current and future competitions of the Corporation with domestic and foreign companies, investment environment, capital demand, capital budget, and shareholders' interests, striking a balance between dividends and the long-term financial planning of the Corporation, so as to foster sustainable operation and stable development. The dividend distribution of the shareholders of the Corporation can be distributed in cash dividends or share dividends, in which the proportion of shareholders' cash dividend distribution shall be no less than 10% of the total dividends of the shareholders.

The 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 deficit. 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 2020 and 2019 were resolved in the shareholders' meeting on July 26, 2021 and June 3, 2020, respectively, and were as follows:

	<b>Appropriation of Earnings</b>	
	<b>For Year 2020</b>	<b>For Year 2019</b>
Legal reserve	\$ 868,226	\$ 455,816
Reversal of special reserve	(10,784)	(204,802)
Cash dividends	4,532,702	2,561,962
Per share (NT\$) of cash dividends	23	13

The appropriations of the half-yearly earnings for 2021, which were resolved by the Corporation's board of directors on August 6, 2021, were as follows:

	<b>For the Six Months Ended June 30, 2021</b>
Legal reserve	\$ 355,551
Reversal of special reserve	(9,773)
Cash dividends	1,970,740
Per share (NT\$) of cash dividends	10

## 22. OPERATING REVENUE

### a. Disaggregation of revenue from contracts with customers

<b>Product</b>	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Flash memory module products	\$ 13,294,305	\$ 9,367,034	\$ 36,917,571	\$ 27,959,307
Controllers	2,584,800	1,566,994	6,554,264	5,462,463
Integrated Circuit	986,908	925,297	2,076,338	2,091,047
Others	<u>60,533</u>	<u>74,672</u>	<u>176,299</u>	<u>142,732</u>
	<u>\$ 16,926,546</u>	<u>\$ 11,933,997</u>	<u>\$ 45,724,472</u>	<u>\$ 35,655,549</u>

Geography	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Asia	\$ 13,020,229	\$ 8,735,360	\$ 34,215,095	\$ 25,140,930
America	3,046,183	2,248,062	8,575,878	7,576,616
Europe	816,955	905,422	2,823,389	2,811,127
Australia	43,179	43,353	108,747	125,077
Others	<u>-</u>	<u>1,800</u>	<u>1,363</u>	<u>1,799</u>
	<u>\$ 16,926,546</u>	<u>\$ 11,933,997</u>	<u>\$ 45,724,472</u>	<u>\$ 35,655,549</u>

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

b. Contract balances

	September 30, 2021	December 31, 2020	September 30, 2020	January 1, 2020
Contract liabilities	<u>\$ 183,102</u>	<u>\$ 35,553</u>	<u>\$ 48,168</u>	<u>\$ 130,615</u>

The changes in the contract liability balances primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment.

## 23. NET PROFIT

a. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Net (loss) gain on financial assets at FVTPL	\$ (138,100)	\$ (69,636)	\$ 169,353	\$ (92,139)
Gain on disposal of investments accounted for using the equity method (Note 13)	-	966,250	-	966,250
Net foreign exchange gains (losses) (Note 33)	50,369	(128,506)	(36,312)	(173,449)
Others	<u>(2,551)</u>	<u>(2,643)</u>	<u>(2,546)</u>	<u>(3,524)</u>
	<u>\$ (90,282)</u>	<u>\$ 765,465</u>	<u>\$ 130,495</u>	<u>\$ 697,138</u>

b. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Bank deposits	\$ 8,064	\$ 6,549	\$ 26,319	\$ 28,969
Others	<u>18</u>	<u>-</u>	<u>22</u>	<u>6,252</u>
	<u>\$ 8,082</u>	<u>\$ 6,549</u>	<u>\$ 26,341</u>	<u>\$ 35,221</u>

c. Other income

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Rental income	\$ 4,233	\$ 6,477	\$ 15,711	\$ 7,232
Dividend income	35,564	29,316	71,623	82,471
Others	<u>9,196</u>	<u>42,045</u>	<u>28,674</u>	<u>105,067</u>
	<u>\$ 48,993</u>	<u>\$ 77,838</u>	<u>\$ 116,008</u>	<u>\$ 194,770</u>

d. Finance costs

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Interest on bank loans	\$ 4,409	\$ 1,238	\$ 14,937	\$ 1,698
Interest on lease liabilities	<u>170</u>	<u>145</u>	<u>575</u>	<u>708</u>
	<u>\$ 4,579</u>	<u>\$ 1,383</u>	<u>\$ 15,512</u>	<u>\$ 2,406</u>

e. Depreciation and amortization

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Property, plant and equipment	\$ 115,034	\$ 97,732	\$ 325,754	\$ 264,052
Right-of-use assets	5,464	3,187	15,694	12,268
Intangible assets	<u>67,605</u>	<u>50,457</u>	<u>189,732</u>	<u>144,787</u>
	<u>\$ 188,103</u>	<u>\$ 151,376</u>	<u>\$ 531,180</u>	<u>\$ 421,107</u>
An analysis of depreciation by function				
Operating costs	\$ 37,440	\$ 30,627	\$ 105,317	\$ 64,711
Operating expenses	<u>83,058</u>	<u>70,292</u>	<u>236,131</u>	<u>211,609</u>
	<u>\$ 120,498</u>	<u>\$ 100,919</u>	<u>\$ 341,448</u>	<u>\$ 276,320</u>
An analysis of amortization by function				
Operating costs	\$ 140	\$ -	\$ 422	\$ 14
Operating expenses	<u>67,465</u>	<u>50,457</u>	<u>189,310</u>	<u>144,773</u>
	<u>\$ 67,605</u>	<u>\$ 50,457</u>	<u>\$ 189,732</u>	<u>\$ 144,787</u>

f. Employee benefits expense

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Short-term employee benefits	<u>\$ 1,941,248</u>	<u>\$ 1,338,898</u>	<u>\$ 5,580,947</u>	<u>\$ 4,092,819</u>
Post-employment benefits				
Defined contribution plan	41,235	30,981	112,160	85,163
Defined benefit plan (Note 20)	<u>768</u>	<u>808</u>	<u>2,303</u>	<u>2,416</u>
	<u>42,003</u>	<u>31,789</u>	<u>114,463</u>	<u>87,579</u>
Share-based payments				
Equity-settled	<u>58,799</u>	<u>47,459</u>	<u>174,758</u>	<u>139,419</u>
Termination benefits	<u>-</u>	<u>-</u>	<u>-</u>	<u>93</u>
Other employee benefits				
Employee welfare	21,741	15,865	59,570	46,910
Food stipend	<u>23,273</u>	<u>18,130</u>	<u>64,570</u>	<u>46,190</u>
	<u>45,014</u>	<u>33,995</u>	<u>124,140</u>	<u>93,100</u>
	<u>\$ 2,087,064</u>	<u>\$ 1,452,141</u>	<u>\$ 5,994,308</u>	<u>\$ 4,413,010</u>
Employee benefits				
Recognized in operating costs	\$ 173,979	\$ 173,754	\$ 505,269	\$ 316,987
Recognized in operating expenses	<u>1,913,085</u>	<u>1,278,387</u>	<u>5,489,039</u>	<u>4,096,023</u>
	<u>\$ 2,087,064</u>	<u>\$ 1,452,141</u>	<u>\$ 5,994,308</u>	<u>\$ 4,413,010</u>

g. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months and nine months ended September 30, 2021 and 2020, the employees' compensation and remuneration of directors and supervisors were as follows:

Accrual rate

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Employees' compensation	10.02%	9.89%
Remuneration of directors and supervisors	0.53%	0.71%

Amount

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Employees' compensation	<u>\$ 321,226</u>	<u>\$ 221,004</u>	<u>\$ 844,961</u>	<u>\$ 591,095</u>
Remuneration of directors and supervisors	<u>\$ -</u>	<u>\$ 5,384</u>	<u>\$ 45,000</u>	<u>\$ 42,393</u>

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019, approved by the Corporation's board of directors on March 11, 2021 and March 16, 2020, respectively, were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Cash Dividends</b>	<b>Stock Dividends</b>	<b>Cash Dividends</b>	<b>Stock Dividends</b>
Employees' compensation	\$ 1,000,000	\$ -	\$ 650,000	\$ -
Remuneration of directors and supervisors	45,000	-	35,000	-

If there is a change in the amounts after the annual consolidated financial statements are 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, 2020 and 2019.

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

h. Gains or losses on foreign currency exchange

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Foreign exchange gains	\$ 119,504	\$ 59,569	\$ 424,840	\$ 220,789
Foreign exchange losses	<u>(69,135)</u>	<u>(188,075)</u>	<u>(461,152)</u>	<u>(394,238)</u>
Net gains (losses)	<u>\$ 50,369</u>	<u>\$ (128,506)</u>	<u>\$ (36,312)</u>	<u>\$ (173,449)</u>



## 24. INCOME TAXES

### a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Current tax				
In respect of the current period	\$ 486,819	\$ 169,969	\$ 1,390,255	\$ 625,855
Adjustments for prior year	-	(46,140)	(1,141)	(267,627)
Income tax on unappropriated earnings	<u>-</u>	<u>-</u>	<u>166,016</u>	<u>82,357</u>
	486,819	123,829	1,555,130	440,585
Deferred tax				
In respect of the current period	<u>(9,538)</u>	<u>64,635</u>	<u>(220,939)</u>	<u>26,276</u>
Income tax expense recognized in profit or loss	<u>\$ 477,281</u>	<u>\$ 188,464</u>	<u>\$ 1,334,191</u>	<u>\$ 466,861</u>

### b. Income tax assessments

Associate	For the Year Ended
Phison Electronics Corp.	2018
Lian Xu Dong Investment Corporation	2019
Emtops Electronics Corp.	2019
Ostek Corporation	2019
Phisontech Electronics Taiwan Corp.	2019
Super Storage Technology Corporation	2018

## 25. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Basic earnings per share	<u>\$ 12.10</u>	<u>\$ 9.30</u>	<u>\$ 32.15</u>	<u>\$ 24.94</u>
Diluted earnings per share	<u>\$ 11.75</u>	<u>\$ 9.20</u>	<u>\$ 31.15</u>	<u>\$ 24.58</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 September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Earnings used in the computation of basic earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 2,383,847</u>	<u>\$ 1,833,764</u>	<u>\$ 6,335,468</u>	<u>\$ 4,915,106</u>
Earnings used in the computation of diluted earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 2,383,847</u>	<u>\$ 1,833,764</u>	<u>\$ 6,335,468</u>	<u>\$ 4,915,106</u>

**Shares**

	(In Thousands of Shares)			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074	197,074	197,074
Effect of potentially dilutive common shares:				
Employees' compensation	2,241	2,235	2,820	2,907
Employees' stock options	<u>3,481</u>	<u>-</u>	<u>3,481</u>	<u>-</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>202,796</u>	<u>199,309</u>	<u>203,375</u>	<u>199,981</u>

The Group may settle compensation or bonuses paid to employees in cash or shares, therefore, the Group assumes that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares are 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.

## 26. SHARE-BASED PAYMENT

### Employee Share Option Plan

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

Information on employee share options is as follows:

	For the Nine Months Ended September 30			
	2021		2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at January 1	1,976	\$ 262	6,000	\$ 340
Options forfeited	<u>(32)</u>	-	<u>(42)</u>	-
Balance at September 30	<u>1,944</u>	249.3	<u>5,958</u>	340
Options exercisable, end of period	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 59.63</u>		<u>\$ 70.44</u>	

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

	Second Grant, 2019	First Grant, 2019
Grant-date share price	\$262	\$340
Exercise price	\$262	\$340
Expected volatility	35.27%-35.45%	31.30%-31.79%
Expected dividend yield	-	-
Expected life	3 years	3 years
Risk-free interest rate	0.20%-0.22%	0.52%-0.53%

In accordance with employee share option plan approved in 2020, 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.

	<b>For the Nine Months Ended September 30, 2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	5,835	\$ 262
Options forfeited	<u>(46)</u>	-
Balance at September 30	<u>5,789</u>	249.3
Options exercisable, end of year	<u>-</u>	
Weighted-average fair value of options granted (\$)		<u>\$ 59.63</u>

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

	<b>First Grant, 2020</b>
Grant-date share price	\$262
Exercise price	\$262
Expected volatility	35.27%-35.45%
Expected dividend yield	-
Expected life	3 years
Risk-free interest rate	0.20%-0.22%

Information on outstanding options is as follows:

	<b>September 30, 2021</b>
Range of exercise price (\$)	\$249.3
Weighted-average remaining contractual life (in years)	2 years

Compensation costs recognized for the three months and nine months ended September 30, 2021 and 2020 were \$58,799 thousand, \$47,459 thousand, \$174,758 thousand and \$139,419 thousand, respectively.

## 27. BUSINESS COMBINATIONS

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

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

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

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

b. Net cash outflow on the acquisition of subsidiaries

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

## 28. 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.

## 29. FINANCIAL INSTRUMENTS

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

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

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

#### 1) Fair value hierarchy

September 30, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 658,056	\$ -	\$ -	\$ 658,056
Domestic unlisted shares	-	-	299,168	299,168
Overseas unlisted shares	-	-	96,938	96,938
Domestic private equity funds	-	-	40,325	40,325
Beneficiary certificates - open-end funds	<u>473,741</u>	<u>-</u>	<u>-</u>	<u>473,741</u>
	<u>\$ 1,131,797</u>	<u>\$ -</u>	<u>\$ 436,431</u>	<u>\$ 1,568,228</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 208,510	\$ 208,510
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>364,350</u>	<u>364,350</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 572,860</u>	<u>\$ 572,860</u>

December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 505,377	\$ -	\$ -	\$ 505,377
Domestic unlisted shares	-	-	314,214	314,214
Overseas unlisted shares	-	-	80,989	80,989
Domestic private equity funds	-	-	42,033	42,033
Beneficiary certificates - open-end funds	<u>4,989,343</u>	<u>-</u>	<u>-</u>	<u>4,989,343</u>
	<u>\$ 5,494,720</u>	<u>\$ -</u>	<u>\$ 437,236</u>	<u>\$ 5,931,956</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 139,069	\$ 139,069
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>221,235</u>	<u>221,235</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,304</u>	<u>\$ 360,304</u>

September 30, 2020

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

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2021 and 2020.

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

For the nine months ended September 30, 2021

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, 2021	\$ 42,033	\$ -	\$ 395,203	\$ 360,304	\$ 797,540
Recognized in profit or loss	(1,708)	-	44,889	-	43,181
Recognized in other comprehensive income	-	-	-	107,551	107,551
Additions	-	-	3,338	105,005	108,343
Transfers out of Level 3	-	-	(32,024)	-	(32,024)
Disposals and proceeds from capital reductions	<u>-</u>	<u>-</u>	<u>(15,300)</u>	<u>-</u>	<u>(15,300)</u>
Balance at September 30, 2021	<u>\$ 40,325</u>	<u>\$ -</u>	<u>\$ 396,106</u>	<u>\$ 572,860</u>	<u>\$ 1,009,291</u>

For the nine months ended September 30, 2020

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

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

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

	September 30	
	2021	2020
Discount for lack of marketability	15%-29.67%	15%

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

	September 30	
	2021	2020
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	2.88%	1.37%
WACC	14.18%-15.18%	12%-16.31%

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



	<u>September 30</u>	
	<b>2021</b>	<b>2020</b>
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
<u>Financial assets</u>			
Financial assets at FVTPL			
Mandatorily classified as FVTPL	\$ 1,568,228	\$ 5,931,956	\$ 3,710,445
Financial assets at amortized cost (Note 1)	22,303,261	21,578,601	19,104,692
Financial assets at FVTOCI			
Equity instruments	572,860	360,304	468,454
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 2)	15,552,426	11,212,515	8,734,529

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

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

d. Financial risk management objectives and policies

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

1) Market risk

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

a) Foreign currency risk

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

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

### Sensitivity analysis

The Group was mainly exposed to the U.S. 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.

	<b>Impact of USD</b>	
	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Profit or loss	\$ 400,095	\$ 308,843

#### b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group held bank deposits and borrowings 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:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Fair value interest rate risk			
Financial assets	\$ 6,252,242	\$ 4,764,683	\$ 3,703,222
Financial liabilities	1,619,314	1,485,112	783,171
Cash flow interest rate risk			
Financial assets	5,875,475	10,490,173	9,578,131
Financial liabilities	203,300	254,122	233,672

### Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2021 and 2020 would have increased by \$425 thousand and \$701 thousand, respectively.

#### c) Other price risk

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

### Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the nine months ended September 30, 2021 and 2020 would have increased/decreased by \$15,682 thousand and \$37,104 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the nine months ended September 30, 2021 and 2020 would have increased/decreased by \$5,729 thousand and \$4,685 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

#### 2) Credit risk

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

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

#### 3) Liquidity risk

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

##### a) Financing facilities

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Unsecured bank facilities:			
Amount used	\$ 2,713,395	\$ 2,640,480	\$ 1,917,500
Amount unused	<u>7,064,371</u>	<u>7,167,920</u>	<u>7,940,500</u>
	<u>\$ 9,777,766</u>	<u>\$ 9,808,400</u>	<u>\$ 9,858,000</u>
Secured bank facilities:			
Amount used	\$ 233,300	\$ 226,122	\$ 233,672
Amount unused	<u>20,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 253,300</u>	<u>\$ 226,122</u>	<u>\$ 233,672</u>

b) Liquidity and interest rate risk tables for non-derivative financial liabilities

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

	<b>September 30, 2021</b>				
	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>More Than 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,213,955	\$ 6,077,012	\$ 5,406,958	\$ -	\$ -
Fixed interest rate liabilities	839,319	686,209	-	-	-
Variable interest rate liabilities	32,856	35,635	25,252	134,676	44,892
Lease liabilities	<u>2,027</u>	<u>4,072</u>	<u>16,604</u>	<u>13,741</u>	<u>-</u>
	<u>\$ 4,088,157</u>	<u>\$ 6,802,928</u>	<u>\$ 5,448,814</u>	<u>\$ 148,417</u>	<u>\$ 44,892</u>

	<b>December 31, 2020</b>				
	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>More Than 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,248,851	\$ 2,091,340	\$ 4,254,344	\$ -	\$ -
Fixed interest rate liabilities	783,728	669,983	-	-	-
Variable interest rate liabilities	2,831	5,661	53,276	134,676	70,144
Lease liabilities	<u>1,438</u>	<u>2,877</u>	<u>12,572</u>	<u>16,646</u>	<u>-</u>
	<u>\$ 4,036,848</u>	<u>\$ 2,769,861</u>	<u>\$ 4,320,192</u>	<u>\$ 151,322</u>	<u>\$ 70,144</u>

	<b>September 30, 2020</b>				
	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>More Than 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 2,927,636	\$ 1,711,877	\$ 3,272,348	\$ -	\$ -
Fixed interest rate liabilities	757,870	-	-	-	-
Variable interest rate liabilities	2,806	5,611	25,252	134,676	78,561
Lease liabilities	<u>1,098</u>	<u>2,197</u>	<u>9,217</u>	<u>13,782</u>	<u>-</u>
	<u>\$ 3,689,410</u>	<u>\$ 1,719,685</u>	<u>\$ 3,306,817</u>	<u>\$ 148,458</u>	<u>\$ 78,561</u>

e. Information on transfers of financial assets

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

### 30. RELATED PARTY TRANSACTIONS

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

#### a. Related parties and their relationships

<u>Related Party</u>	<u>Relationship</u>
Toshiba International Procurement Hong Kong, Ltd.	Other related party
Kioxia America, Inc.	Other related party
Kioxia Corporation	Other related party
Kioxia Taiwan Corporation	Other related party
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
Super Storage Technology Corporation	Other related party (Note 1)
Solid State Storage Technology Corporation Hsinchu Science Park Branch	Other related party
Kingston Solutions Inc.	Associate (Note 2)
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Hosin Global Electronics Co., Ltd. (HK)	Associate
Hefei Datang Storage Technology Co., Ltd.	Associate
SiliTai Electronics Co., Limited	Associate
Hosin Global Electronics Co., Ltd. (SZ)	Associate
Hefei Core Storage Electronic Limited	Associate (Note 3)
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Associate

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

Note 2: Starting from September 4, 2020, Kingston Solutions Inc. was no longer a related party of the Group.

Note 3: Starting from November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and became an associate of the Group.

#### b. Operating revenue

<b>Related Party Categories/Name</b>	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Associates	\$ 2,273,058	\$ 279,842	\$ 4,249,037	\$ 886,037
Other related parties	<u>695,966</u>	<u>660,596</u>	<u>2,111,221</u>	<u>1,584,372</u>
	<u>\$ 2,969,024</u>	<u>\$ 940,438</u>	<u>\$ 6,360,258</u>	<u>\$ 2,470,409</u>

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

c. Operating costs

1) Purchase of goods

Related Party Categories/Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Associates	\$ 20,284	\$ 40,061	\$ 182,448	\$ 269,627
Other related parties				
Kioxia Taiwan Corporation	3,869,877	2,370,834	10,928,322	7,215,651
Others	<u>-</u>	<u>174,069</u>	<u>-</u>	<u>718,383</u>
	<u>\$ 3,890,161</u>	<u>\$ 2,584,964</u>	<u>\$ 11,110,770</u>	<u>\$ 8,203,661</u>

2) Processing costs

Related Party Categories/Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Associates	\$ -	\$ 17	\$ -	\$ 42
Other related parties	<u>743,423</u>	<u>380,262</u>	<u>1,853,455</u>	<u>1,462,869</u>
	<u>\$ 743,423</u>	<u>\$ 380,279</u>	<u>\$ 1,853,455</u>	<u>\$ 1,462,911</u>

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

d. Receivables from related parties

Related Party Categories/Name	September 30, 2021	December 31, 2020	September 30, 2020
Associates			
Hosin Global Electronics Co., Ltd. (HK)	\$ 1,287,813	\$ 116,308	\$ 44,377
Others	612,255	231,560	51,626
Other related parties	<u>568,741</u>	<u>321,413</u>	<u>506,482</u>
	<u>\$ 2,468,809</u>	<u>\$ 669,281</u>	<u>\$ 602,485</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 Categories/Name	September 30, 2021	December 31, 2020	September 30, 2020
Associates	\$ 43,335	\$ 17,918	\$ 246
Other related parties			
Kioxia Taiwan Corporation	1,347,331	1,063,257	1,018,324
Others	<u>295,115</u>	<u>208,547</u>	<u>166,248</u>
	<u>\$ 1,685,781</u>	<u>\$ 1,289,722</u>	<u>\$ 1,184,818</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Short-term employee benefits	\$ 164,299	\$ 81,344	\$ 377,442	\$ 398,016
Post-employment benefits	522	796	1,582	2,327
Share-based payments	19,684	19,201	62,962	58,110
Other employee benefits	<u>2,000</u>	<u>1,182</u>	<u>4,489</u>	<u>5,168</u>
	<u>\$ 186,505</u>	<u>\$ 102,523</u>	<u>\$ 446,475</u>	<u>\$ 463,621</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) 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.

2) Regis Investment (Samoa) Limited

On September 1, 2020, the Group purchased Regis Investment (Samoa) Limited 8,900 thousand shares for USD 8,900 thousand through capital increase.

3) Power Flash (Samoa) Limited

On August 20, 2021, the Group purchased Power Flash (Samoa) Limited 1,600 thousand shares for USD 1,600 thousand through capital increase.

### 31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	September 30, 2021	December 31, 2020	September 30, 2020
Refundable deposits for customs duties - certificates of deposit (financial assets at amortized cost - current)	<u>\$ 40,459</u>	<u>\$ 40,409</u>	<u>\$ 40,409</u>
Buildings	<u>\$ 386,831</u>	<u>\$ 396,422</u>	<u>\$ 399,619</u>
Land	<u>\$ 147,060</u>	<u>\$ 147,060</u>	<u>\$ 147,060</u>

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of September 30, 2021, December 31, 2020 and September 30, 2020 were as follows:

#### Significant Commitments

	September 30, 2021	December 31, 2020	September 30, 2020
Unused letters of credit	<u>\$ 1,160,000</u>	<u>\$ 1,160,000</u>	<u>\$ 1,160,000</u>

### 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 foreign currencies and respective functional currencies were as follows:

#### In Thousands of New Taiwan Dollars and Foreign Currencies

	September 30, 2021		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 414,263	27.8500	\$ 11,537,238
CNY (CNY:NTD)	119,481	4.3050	514,366
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	174,829	27.8500	4,868,987
	December 31, 2020		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 312,127	28.4800	\$ 8,889,370
CNY (CNY:NTD)	67,468	4.3770	295,309
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	136,680	28.4800	3,892,659



	<b>September 30, 2020</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rates</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 262,944	29.1000	\$ 7,651,684
USD (USD:CNY)	4,922	6.8101	143,241
CNY (CNY:NTD)	35,441	4.2690	151,298
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	90,981	29.1000	2,647,537

For the three months and nine months ended September 30, 2021 and 2020, (realized and unrealized) net foreign currency exchange were a gain of \$50,369 thousand, a loss of \$128,506 thousand, a loss of \$36,312 thousand and a loss of \$173,449 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

#### **34. OTHER SIGNIFICANT EVENTS**

- a. When considering the impact of the COVID-19 pandemic, the Group assessed that the pandemic had no significant influence on its finance and operations, and there were no doubts about its ability to continue as a going concern in relation to the recognition of an impairment loss and the risk of financing.
- b. The Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation Mr. K.S. Pua (“Mr. Pua”) and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted Mr. Pua and others for their alleged violation of the Securities and Exchange Act and related provisions. On October 29, 2021, Taiwan Hsinchu District Court rendered judgment. In accordance with the judgment, the court sentenced Mr. Pua to 1 year and 10 month imprisonment (which can be commuted into a fine) for causing public official to make false information in public document; the court further sentenced Mr. Pua to 2-year imprisonment for violating Article 171 Item 1 Sub-Item 1 of Securities and Exchange Act. Mr. Pua presents his regret for the judgment, and will discuss with attorneys to determine corresponding matters and appeal this case to the court of second instance. The Corporation evaluates and believes that court judgment does not influence its operation and finance.

The Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, the Securities and Futures Investors Protection Center (“Investors Protection Center”) filed two civil actions, respectively: (1) the first civil action was to remove Mr. K.S. Pua as director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim the amount of compensation damage of \$697,389 thousand from the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). These two civil actions were derivative litigations arising from the Case. The Corporation has already appointed civil defense attorneys and filed a motion to dismiss these 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.

- c. To meet the needs of plant space, employee’s parking lot and other similar planned space for scale growth of operations, on May 27, 2021, the Corporation’s board of directors resolved the proposal of purchasing the land and building from non-related party, TYNTEK CORPORATION. The purchase amount was \$607,865 thousand (VAT-exclusive) totally. As of September 30, 2021, the Corporation has paid \$60,786 thousand in advance.
- d. On August 6, 2021, the Corporation’s board of directors resolved the proposal of issuing the first domestic unsecured convertible bonds to purchase property, plant and equipment and to enrich working capital to improve capital scheduling capabilities.

### **35. ADDITIONAL DISCLOSURES**

- a. Information about significant transactions
  - 1) Financing provided to others. (None)
  - 2) Endorsements/guarantees provided. (None)
  - 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)
  - 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 2)
  - 5) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
  - 9) Trading in derivative instruments. (None)
  - 10) Other: Intercompany relationships and significant intercompany transactions. (Table 5)
- b. Information of investees. (Table 6)

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 7)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses.
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 8)
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 8)
  - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
  - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes. (None)
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)
- d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder. (Table 9)

### 36. SEGMENT INFORMATION

Information is reported to the chief operating decision maker for the purpose of resource allocation, and the assessment of segment performance is focused on operating income generated from flash memory controllers design and the flash peripheral application integration design, manufacturing and sales business. As a result, the Group has only one operating segment. The segment engages mainly in the design and sale of flash memory controllers and the flash peripheral application integration, such as the application design, manufacturing and sale of SSDs (included SATA, PCIe), Embedded Memory (included eMMC, UFS), USB and memory cards, etc.

The basis for the measurement of income from operations is the same as that for the preparation of the financial statements. Refer to the consolidated statements of comprehensive income for the related segment revenue and operating results.

TABLE 1

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

SEPTEMBER 30, 2021

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

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2021				Note	
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value		
Phison Electronics Corp.	<u>Beneficiary certificates - open-end funds</u>								
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 206,883	-	\$ 206,883	Note 3	
	FSITC Taiwan Money Market Fund	-	Same as above	10,134	156,694	-	156,694	Note 3	
	<u>Common shares</u>								
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	186,344	0.89	186,344	Note 4	
	Apacer Technology Inc.	-	Same as above	10,050	420,592	9.87	420,592	Note 4	
	Acer Synergy Tech Corp.	-	Same as above	450	25,560	3.45	25,560	Note 4	
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	16,960	0.67	16,960	Note 5	
	AppWorks Fund II Co., Ltd.	-	Same as above	5,970	222,495	11.11	222,495	Note 5	
	Innorich Venture Capital Corp.	-	Same as above	3,000	17,277	5.61	17,277	Note 5	
	AppWorks Fund I Co., Ltd.	-	Same as above	728	10,051	18.75	10,051	Note 5	
	Acer Synergy Tech Corp.	-	Same as above	450	25,560	3.45	25,560	Note 4	
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Same as above	50,000	49,345	1.08	49,345	Note 5	
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	529	-	0.60	-	-	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	22,685	19.00	22,685	Note 5	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.54	-	-	
	UD INFO Corp.	-	Same as above	1,252	61,551	17.40	61,551	Note 5	
	GeoThings, Inc.	-	Same as above	150	-	5.36	-	-	
	Ironyun Incorporated (preference shares)	-	Same as above	5,000	-	5.64	-	-	
	Gospal Ltd.	-	Same as above	811,857	2,610	3.19	2,610	Note 5	
	H3 Platform, Inc.	-	Same as above	18,400	10,373	12.14	10,373	Note 5	
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Same as above	11,966	166,968	17.16	166,968	Note 5	
	Gomore Inc.	-	Same as above	16,925	10,498	3.39	10,498	Note 5	
	AppWorks Fund III Co., Ltd.	-	Same as above	7,500	80,005	2.92	80,005	Note 6	
	<u>Private equity fund</u>								
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	40,325	3.81	40,325	Note 5	
	Lian Xu Dong Investment Corporation	<u>Common shares</u>							
		Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	40,563	1.18	40,563	Note 5
		Translink Capital Partners IV L.P.	-	Same as above	790	39,415	0.59	39,415	Note 5
		Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	165,132	5.50	165,132	Note 7
UMBO CV Inc. (preference shares)		-	Same as above	1,626	-	2.34	-	Note 5	
Omni Media International Incorporation		-	Same as above	1,714	9,452	2.60	9,452	Note 5	
RENIAC, INC. (preference shares)		-	Same as above	302	8,769	1.97	8,769	Note 5	
Taiwania Capital Buffalo Fund V, LP.	-	Same as above	25,000	25,000	3.19	25,000	Note 6		

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2021				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Emtops Electronics Corporation	<u>Common shares</u> My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	\$ -	19.00	\$ -	-
Phisontech Electronics Taiwan Corp.	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Money Market	-	Financial assets at FVTPL - current	167	30,062	-	30,062	Note 3
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,028	-	20,028	Note 3
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,025	-	20,025	Note 3
	Capital Money Market Fund	-	Same as above	1,229	20,022	-	20,022	Note 3
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,027	-	20,027	Note 3
Super Storage Technology Corporation	<u>Common shares</u> United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	833	9,817	13.88	9,817	Note 5

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

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

Note 3: The calculation of the market value was based on the net asset value as of September 30, 2021.

Note 4: The calculation of the market value was based on the closing price as of September 30, 2021.

Note 5: Refer to Note 29 (b)-3 for market value information.

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

Note 7: The calculation of the market value was based on the expert appraisal report on September 30, 2021.

Note 8: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance (Note 1)		Acquisition		Disposal				Ending Balance (Note 1)	
					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
Core Storage Electronic (Samoa) Limited and RealYou Investment Limited	Hosin Global Electronics Co., Ltd. (SZ)	Investments accounted for using the equity method	Corporations	Associate	104,500	\$ 1,973,587	54,095 (Note 2)	\$ 1,388,832 (Note 2)	-	\$ -	\$ -	\$ -	158,595	\$ 3,118,159

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

Note 2: Refer to Note 13 for related transactions.

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	Kioxia Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	\$ 10,928,322	34	Net 30 days after monthly closing	None	None	\$ (1,347,331)	(28)	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associate	Purchase	161,201	-	Net 75 days after monthly closing	None	None	(43,335)	(1)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,853,455	6	Net 30 days after monthly closing	None	None	(295,115)	(6)	-
	Super Storage Technology Corporation	Sub-sub-subsidiary	Processing cost	317,090	1	Net 30 days after monthly closing	None	None	(50,085)	(1)	-
	Kioxia Corporation	The Corporation's legal entity board of directors	Sale	(803,087)	(2)	Net 60 days after monthly closing	None	None	192,913	2	-
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The subsidiary of the Corporation's legal entity board of directors	Sale	(325,308)	(1)	Net 60 days after monthly closing	None	None	162,406	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(879,080)	(2)	Net 45 days after monthly closing	None	None	148,715	2	-
	Hefei Core Storage Electronic Limited	The subsidiary of the sub-sub-subsidiary's associate	Sale	(548,113)	(1)	Net 45 days after monthly closing	None	None	206,388	2	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-sub-subsidiary's associate	Sale	(427,082)	(1)	Net 60 days after receipt date	None	None	76,106	1	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associate	Sale	(2,632,251)	(6)	Net 45 days after monthly closing	None	None	1,287,813	14	-
	ProGrade Digital, Inc.	Investee company accounted for using the equity method	Sale	(237,752)	(1)	Net 30 days after receipt date	None	None	46,609	-	-
	Nextorage Corporation	Investee company accounted for using the equity method	Sale	(367,030)	(1)	Net 60 days after monthly closing	None	None	279,627	3	-

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

SEPTEMBER 30, 2021

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
The Corporation	Apacer Technology Inc.	The Corporation is its director	\$ 148,715	5.92	\$ -	-	\$ 65,688	\$ -
	Kioxia Corporation	The Corporation's legal entity board of directors	192,913	9.12	-	-	106,321	-
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The subsidiary of the Corporation's legal entity board of directors	162,406	4.71	-	-	93,863	-
	Hefei Core Storage Electronic Limited	The subsidiary of the sub-subsidiary's associate	206,388	6.04	-	-	90,008	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsidiary's associate	1,287,813	5.00	-	-	842,361	-
	Nextorage Corporation	Investee company accounted for using the equity method	279,627	2.80	-	-	186,820	-

Note: As of November 2, 2021.



## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number	Company Name	Counterparty	Flow of Transaction (Note 1)	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	The Corporation	Super Storage Technology Corporation	1	Processing cost	\$ 317,090	Based on regular terms	1
			1	Accounts payable	50,085	Based on regular terms	-
			1	Right-of-use assets	24,857	Based on regular terms	-
			1	Lease liabilities	25,044	Based on regular terms	-
		1	Phison Technology Inc.	199,765	Based on regular terms	-	
		1	Phison Electronics Japan Corp.	13,201	Based on regular terms	-	
		1	Ostek Corporation	25,348	Based on regular terms	-	

Note 1: Parent company to subsidiary: 1.

Note 2: The criterion of disclosure is that a transaction amount exceeds \$10,000 thousand.

TABLE 6

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2021			Net (Loss) Income of the Investee	Share of (Loss) Profit	Note
				September 30, 2021	December 31, 2020	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
The Corporation	Emtops Electronics Corporation	Taiwan	Investment	\$ 380,000	\$ 380,000	38,000,000	100.00	\$ 335,790	\$ (18,161)	\$ (18,161)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	641,159	27,885	27,885	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	23,765	1,608	788	Investee company accounted for using the equity method
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	581,363	55,000,000	100.00	650,749	39,820	39,913	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	30,281	1,020	1,020	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	2,552,152	(9,086)	(9,086)	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	133,988	6,288,523	30.51	231,708	(9,874)	(3,711)	Investee company accounted for using the equity method
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	105,440	4,800,000	100.00	136,796	(266)	(266)	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	108,428	3,295	3,295	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	1,161,677	33,224	33,224	Subsidiary
ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	32.01	106,137	72,823	23,311	Investee company accounted for using the equity method	
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	81,232	81,232	5,880	49.00	102,933	78,090	38,264	Investee company accounted for using the equity method
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	28,085	(216)	-	Sub-subsubsidiary
Emtops Electronics Corporation	Phison Technology Inc.	USA	Sales and service office	90,419	90,419	3,000,000	100.00	74,252	(17,389)	-	Sub-subsubsidiary
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	527,950	40,410	-	Sub-subsubsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2021			Net (Loss) Income of the Investee	Share of (Loss) Profit	Note
				September 30, 2021	December 31, 2020	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	\$ 636,593	\$ 636,593	19,150,000	100.00	\$ 2,540,412	\$ (25,432)	\$ -	Sub-subsidiary
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	86,827	66	-	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Manufacture and sale of flash memory related products	-	191,986	-	-	-	(435)	-	-
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	1,179,626	33,263	-	Sub-subsidiary

(Concluded)

TABLE 7

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
(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, 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2021	Percentage of Ownership (%)	Share of (Loss) Profit (Note 2)	Carrying Amount as of September 30, 2021	Accumulated Inward Remittance of Earnings as of September 30, 2021	Note
					Outflow	Inflow						
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic product and technical support service and rendering of related services	\$ -	b (2)	\$ 630,990	\$ -	\$ -	\$ 630,990	-	\$ (5,182)	\$ -	\$ -	3
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	b (1)	182,825	-	-	182,825	100.00	(17,339)	150,052	-	-
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	b (1)	-	-	-	-	24.23	(17,305)	140,462	-	-
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,622,071	b (1), b (2)	442,780	-	-	442,780	43.32	151,541	3,118,159	-	-

Accumulated Investments in Mainland China as of September 30, 2021	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 1,256,595 (US\$ 39,542)	\$ 1,336,236 (US\$ 42,390)	\$ 20,989,193

(Continued)

Note 1: Method of investment:

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

Note 2: The amounts were recognized based on the unreviewed financial statements for the same period.

Note 3: Refer to Note 13 for related transactions.

(Concluded)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
 (In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	Hefei Core Storage Electronic Limited	The subsidiary of the sub-subsidiary's associate	Sale	\$ (548,113)	(1)	Net 45 days after monthly closing	None	None	\$ 206,388	2	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	Sale	(427,082)	(1)	Net 60 days after receipt date	None	None	76,106	1	-
	HOSIN Global Electronics Co., Ltd. (SZ)	The associate of the sub-subsidiary's reinvestment	Sale	16,735	-	Net 30 days after receipt date	None	None	-	-	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	Purchase	11,234	-	Net 60 days after monthly closing	None	None	-	-	-

**PHISON ELECTRONICS CORP.****INFORMATION OF MAJOR SHAREHOLDERS  
SEPTEMBER 30, 2021**

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

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