

Phison Electronics Corp. and Subsidiaries

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2022 and 2021**

Address: 10F-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County
Telephone: (037)586-896

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

| Contents | Page |
|-----------------------------------------------------------------------------------------------|-------------|
| 1. Cover Page | 1 |
| 2. Table of Contents | 2 |
| 3. Independent Auditors' Review Report | 3 |
| 4. Consolidated Balance Sheets | 4 |
| 5. Consolidated Statements of Comprehensive Income | 5 |
| 6. Consolidated Statements of Changes in Equity | 6 |
| 7. Consolidated Statements of Cash Flows | 7 |
| 8. Notes to the Consolidated Financial Statements | |
| (1) Company history | 8 |
| (2) Approval date and procedures of the consolidated financial statements | 8 |
| (3) New standards, amendments and interpretations adopted | 8~9 |
| (4) Summary of significant accounting policies | 9~11 |
| (5) Critical accounting judgements and key sources of estimations and assumptions uncertainty | 11~12 |
| (6) Description of significant accounts | 12~46 |
| (7) Related-party transactions | 46~50 |
| (8) Pledged assets | 50 |
| (9) Commitments and contingencies | 50~51 |
| (10) Losses due to major disasters | 51 |
| (11) Subsequent events | 51 |
| (12) Other | 51~52 |
| (13) Addition disclosures | |
| (a) Information on significant transactions | 52~53、55~63 |
| (b) Information on investees (excluding information on investees in Mainland China) | 53、64~65 |
| (c) Information on investment in Mainland China | 53、66~67 |
| (d) Information of major shareholder | 53~54 |
| (14) Segment information | 54 |



安侯建業聯合會計師事務所

KPMG

新竹市300091新竹科學園區展業一路11號
No. 11, Prosperity Road I, Hsinchu Science Park,
Hsinchu City 300091, Taiwan (R.O.C.)

Telephone 電話 + 886 3 579 9955
Fax 傳真 + 886 3 563 2277
Internet 網址 home.kpmg/tw

Independent Auditors' Review Report

To the Board of Directors of Phison Electronics Corp.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Phison Electronics Corp. and its subsidiaries (“the Group”) as of June 30, 2022, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2022, as well as the changes in equity and cash flows for the six months ended June 30, 2022, and 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 (“IASs”) 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 review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our review in accordance with Statement of Auditing Standard 65, “Review of Financial Information Performed by the Independent Auditor of the Entity”. A review of the 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 conducted in accordance with the generally accepted auditing standards 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 stated in Note 4(2), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$6,998,344 thousand, constituting 11% of consolidated total assets as of June 30, 2022, total liabilities amounting to \$706,308 thousand, constituting 3% of consolidated total liabilities as of June 30, 2022, and total comprehensive income (loss) amounting to \$63,207 thousand and \$214,798 thousand, constituting 4% and 5% of consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2022.

Furthermore, as stated in Note 6(8), the other equity accounted investments of Phison Electronics Corp. and its subsidiaries in its investee companies of \$4,072,164 thousand as of June 30, 2022, and its equity in net earnings on these investee companies of \$4,839 thousand and \$1,133 thousand for the three months and six months ended June 30, 2022, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.



Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Phison Electronics Corp. and its subsidiaries as of June 30, 2022, and of its consolidated financial performance for the three months and six months ended June 30, 2022, as well as its consolidated cash flows for the six months ended June 30, 2022 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.

Other Matter

The consolidated financial statements of the Group as of and for the six months ended June 30, 2021, were audited by other auditors, who have issued a qualified conclusion with emphasis of matter paragraph due to the financial statements of certain non-significant subsidiaries and investees accounted for using the equity method which were not reviewed by independent auditors on August 6, 2021.

The engagement partners on the review resulting in this independent auditors’ review report are Chien-Hui Lu and Wan-Yuan Yu.

KPMG

Taipei, Taiwan (Republic of China)
July 29, 2022

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the 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.

The independent auditors’ review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors’ review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of June 30, 2022 and 2021

Phison Electronics Corp. and subsidiaries
Consolidated Balance Sheets
June 30, 2022, December 31, 2021, and June 30, 2021
(Expressed in Thousands of New Taiwan Dollars)

| Assets | | June 30, 2022 | | December 31, 2021 | | June 30, 2021 | | Liabilities and Equity | | June 30, 2022 | | December 31, 2021 | | June 30, 2021 | |
|----------------------------|---------------------------------------------------------------------------------------------|-------------------|-----------|-------------------|-----------|-------------------|-----------|---------------------------------------|-----------------------------------------------------|----------------------|------------|-------------------|------------|-------------------|------------|
| | | Amount | % | Amount | % | Amount | % | | | Amount | % | Amount | % | Amount | % |
| Current assets: | | | | | | | | Current liabilities: | | | | | | | |
| 1100 | Cash and cash equivalents (note 6(1)) | \$ 15,835,973 | 25 | 19,040,947 | 30 | 18,538,741 | 33 | 2100 | Short-term borrowings (note 6(13)) | \$ 30,000 | - | 439,216 | 1 | 3,419,916 | 6 |
| 1110 | Financial assets at fair value through profit or loss – current (note 6(2)) | 988,599 | 2 | 1,206,954 | 2 | 1,161,884 | 2 | 2130 | Contract liabilities – current | 242,868 | - | 203,044 | - | 114,369 | - |
| 1136 | Financial assets at amortized cost – current (notes 6(3) and 8) | 42,198 | - | 568,694 | 1 | 1,160,693 | 2 | 2170 | Accounts payable | 2,378,720 | 4 | 5,836,376 | 10 | 3,263,110 | 6 |
| 1170 | Accounts receivable, net (note 6(5)) | 6,429,935 | 10 | 5,915,737 | 9 | 6,590,978 | 12 | 2180 | Accounts payable – related parties (note 7) | 2,684,584 | 4 | 3,200,307 | 5 | 1,700,485 | 3 |
| 1180 | Accounts receivable – related parties, net (notes 6(5) and 7) | 2,093,411 | 3 | 2,813,524 | 4 | 1,543,554 | 3 | 2200 | Other payables (note 6(14)) | 10,461,033 | 16 | 9,821,146 | 16 | 11,037,627 | 20 |
| 1200 | Other receivables (notes 6(6) and 7) | 422,754 | 1 | 623,912 | 1 | 456,094 | 1 | 2230 | Tax payable | 956,255 | 2 | 1,223,434 | 2 | 837,684 | 1 |
| 1220 | Tax assets | 574 | - | 2,905 | - | 4,260 | - | 2280 | Lease liabilities – current (note 6(11)) | 41,662 | - | 24,027 | - | 19,396 | - |
| 130X | Inventories (note 6(7)) | 23,300,795 | 36 | 19,496,534 | 31 | 15,599,873 | 28 | 2320 | Long-term borrowings, current portion (note 6(16)) | 30,991 | - | 30,947 | - | 30,716 | - |
| 1410 | Prepayments | 37,654 | - | 24,967 | - | 105,269 | - | 2399 | Other current liabilities (notes 6(15), 7 and 9(3)) | 1,877,103 | 3 | 1,048,696 | 2 | 954,651 | 2 |
| 1479 | Other current assets | 2,785 | - | 2,413 | - | 35,721 | - | | | 18,703,216 | 29 | 21,827,193 | 36 | 21,377,954 | 38 |
| | | <u>49,154,678</u> | <u>77</u> | <u>49,696,587</u> | <u>78</u> | <u>45,197,067</u> | <u>81</u> | Non-Current liabilities: | | | | | | | |
| Non-current assets: | | | | | | | | Equity (notes 6(20) and (21)): | | | | | | | |
| 1510 | Financial assets at fair value through profit or loss – non-current (note 6(2)) | 399,987 | 1 | 451,569 | 1 | 544,444 | 1 | 2530 | Bonds payable (note 6(17)) | 3,427,289 | 5 | 3,412,855 | 5 | - | - |
| 1517 | Financial assets at fair value through other comprehensive income – non-current (note 6(4)) | 638,034 | 1 | 634,757 | 1 | 504,497 | 1 | 2540 | Long-term borrowings (note 6(16)) | 149,295 | 1 | 164,689 | - | 180,220 | 1 |
| 1550 | Investments accounted for using the equity method (note 6(8)) | 4,072,164 | 6 | 4,155,042 | 7 | 3,538,850 | 6 | 2570 | Deferred tax liabilities | 183,177 | 1 | 183,177 | - | 141,121 | - |
| 1600 | Property, plant and equipment (notes 6(10) and 8) | 7,481,798 | 12 | 6,650,562 | 11 | 5,460,710 | 10 | 2580 | Lease liabilities – non-current (note 6(11)) | 92,480 | - | 16,003 | - | 12,837 | - |
| 1755 | Right-of-use assets (note 6(11)) | 133,471 | - | 39,276 | - | 31,841 | - | 2640 | Net defined benefit liabilities | 105,708 | - | 104,897 | - | 104,058 | - |
| 1780 | Intangible assets (note 6(12)) | 323,205 | 1 | 314,671 | - | 283,333 | - | 2645 | Guarantee deposits received (note 9(3)) | 1,788,281 | 3 | 4,109 | - | 3,867 | - |
| 1840 | Deferred tax assets | 548,639 | 1 | 495,193 | 1 | 403,041 | 1 | | | 5,746,230 | 10 | 3,885,730 | 5 | 442,103 | 1 |
| 1900 | Other non-current assets (note 9(2)) | 685,192 | 1 | 583,700 | 1 | 160,281 | - | Total liabilities | | 24,449,446 | 39 | 25,712,923 | 41 | 21,820,057 | 39 |
| | | <u>14,282,490</u> | <u>23</u> | <u>13,324,770</u> | <u>22</u> | <u>10,926,997</u> | <u>19</u> | Equity (notes 6(20) and (21)): | | | | | | | |
| | | | | | | | | 3100 | Common shares | 1,970,740 | 3 | 1,970,740 | 3 | 1,970,740 | 3 |
| | | | | | | | | 3200 | Capital surplus | 7,459,095 | 12 | 7,238,436 | 12 | 6,702,132 | 12 |
| | | | | | | | | 3300 | Retained earnings | 29,425,927 | 46 | 27,995,974 | 44 | 25,786,703 | 46 |
| | | | | | | | | 3400 | Other equity interest | 131,960 | - | 103,284 | - | (155,568) | - |
| | | | | | | | | | | <u>38,987,722</u> | <u>61</u> | <u>37,308,434</u> | <u>59</u> | <u>34,304,007</u> | <u>61</u> |
| | | | | | | | | Total equity | | | | | | | |
| | | | | | | | | Total liabilities and equity | | \$ <u>63,437,168</u> | <u>100</u> | <u>63,021,357</u> | <u>100</u> | <u>56,124,064</u> | <u>100</u> |
| | | | | | | | | | | | | | | | |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

| | For the three months ended June 30 | | | | For the six months ended June 30, | | | | |
|------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|--------|------------|-----------------------------------|------------|--------|------------|-----|
| | 2022 | | 2021 | | 2022 | | 2021 | | |
| | Amount | % | Amount | % | Amount | % | Amount | % | |
| 4000 | Operating revenue (notes 6(23) and 7) | \$ 16,285,415 | 100 | 15,909,976 | 100 | 33,391,274 | 100 | 28,797,926 | 100 |
| 5000 | Operating costs (notes 6(7), (24) and 7) | 11,294,357 | 69 | 10,723,295 | 68 | 23,010,717 | 69 | 19,782,407 | 69 |
| | Gross profit from operations | 4,991,058 | 31 | 5,186,681 | 32 | 10,380,557 | 31 | 9,015,519 | 31 |
| 5910 | Unrealized profit on transactions with associates | (44,443) | - | (21,888) | - | (38,740) | - | (47,199) | - |
| 5950 | Realized gross profit | 4,946,615 | 31 | 5,164,793 | 32 | 10,341,817 | 31 | 8,968,320 | 31 |
| | Operating expenses (notes 6(24) and 7): | | | | | | | | |
| 6100 | Marketing expenses | 316,916 | 2 | 255,734 | 2 | 612,159 | 2 | 466,705 | 2 |
| 6200 | General and administrative expenses | 329,428 | 2 | 228,428 | 1 | 630,599 | 2 | 421,737 | 1 |
| 6300 | Research and development expenses | 2,389,665 | 15 | 2,087,532 | 13 | 4,701,423 | 14 | 3,653,045 | 13 |
| 6450 | Expected credit loss (reversal gain) (note 6(5)) | (9,247) | - | 56,601 | - | 18,245 | - | 55,431 | - |
| | Total operating expenses | 3,026,762 | 19 | 2,628,295 | 16 | 5,962,426 | 18 | 4,596,918 | 16 |
| | Net operating income | 1,919,853 | 12 | 2,536,498 | 16 | 4,379,391 | 13 | 4,371,402 | 15 |
| | Non-operating income and expenses: | | | | | | | | |
| 7010 | Other income (notes 6(9), (25) and 7) | 74,647 | - | 47,946 | - | 112,823 | - | 67,015 | - |
| 7020 | Other gains and losses (notes 6(9) and (25)) | 171,831 | 1 | 123,860 | 1 | 302,095 | 1 | 220,777 | 1 |
| 7050 | Finance costs (note 6(25)) | (8,742) | - | (6,259) | - | (18,492) | - | (10,933) | - |
| 7100 | Interest income | 15,021 | - | 10,610 | - | 23,137 | - | 18,259 | - |
| 7060 | Shares of profit (loss) of associates accounted for using the equity method (note 6(8)) | 4,839 | - | 43,837 | - | 1,133 | - | 142,011 | 1 |
| | | 257,596 | 1 | 219,994 | 1 | 420,696 | 1 | 437,129 | 2 |
| 7900 | Profit before tax | 2,177,449 | 13 | 2,756,492 | 17 | 4,800,087 | 14 | 4,808,531 | 17 |
| 7950 | Income tax expenses (note 6(19)) | 370,595 | 2 | 492,411 | 3 | 808,172 | 2 | 856,910 | 3 |
| 8200 | Net profit for the period | 1,806,854 | 11 | 2,264,081 | 14 | 3,991,915 | 12 | 3,951,621 | 14 |
| 8300 | Other comprehensive income (loss): | | | | | | | | |
| | Items that will not be reclassified subsequently to profit or loss | | | | | | | | |
| 8310 | | | | | | | | | |
| 8316 | Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26)) | (112,267) | (1) | (39,360) | - | (11,713) | - | 59,188 | - |
| 8320 | Shares of other comprehensive income (loss) of associates accounted for using the equity method | (86,504) | (1) | 57,650 | - | (86,504) | - | 98,327 | - |
| | Total items that will not be reclassified subsequently to profit or loss | (198,771) | (2) | 18,290 | - | (98,217) | - | 157,515 | - |
| 8360 | Items that may be reclassified subsequently to profit or loss | | | | | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | (29,343) | - | (51,135) | - | 122,726 | - | (120,869) | - |
| 8399 | Income tax related to items that may be reclassified subsequently (note 6(19)) | 5,868 | - | - | - | 4,167 | - | - | - |
| | Total items that may be reclassified subsequently to profit or loss | (23,475) | - | (51,135) | - | 126,893 | - | (120,869) | - |
| 8300 | Other comprehensive income | (222,246) | (2) | (32,845) | - | 28,676 | - | 36,646 | - |
| 8500 | Total comprehensive income | \$ 1,584,608 | 9 | 2,231,236 | 14 | 4,020,591 | 12 | 3,988,267 | 14 |
| | Earnings per share (New Taiwan Dollars) (note 6(22)): | | | | | | | | |
| 9750 | Basic earnings per share | \$ 9.17 | | 11.49 | | 20.26 | | 20.05 | |
| 9850 | Diluted earnings per share | \$ 8.72 | | 11.24 | | 19.10 | | 19.53 | |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

Phison Electronics Corp. and subsidiaries
Consolidated Statements of Changes in Equity
For the six months ended June 30, 2022 and 2021
(Expressed in Thousands of New Taiwan Dollars)

| | Common shares | Capital surplus | Retained earnings | | | | Total | Total other equity interest | | Total equity |
|---------------------------------------------------------------------------------------------------------|---------------|-----------------|-------------------|-----------------|----------------------------------|---------------------------------------------------------------------|-----------|---------------------------------------------------------------------------------------------------------|-----------|--------------|
| | | | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Total | |
| | | | | | | | | | | |
| Balance at January 1, 2021 | \$ 1,970,740 | 6,586,173 | 4,306,531 | 176,125 | 22,281,239 | 26,763,895 | (37,091) | (128,250) | (165,341) | 35,155,467 |
| Net profit for the period | - | - | - | - | 3,951,621 | 3,951,621 | - | - | - | 3,951,621 |
| Other comprehensive income (loss) for the period | - | - | - | - | - | - | (120,869) | 157,515 | 36,646 | 36,646 |
| Total comprehensive income (loss) for the period | - | - | - | - | 3,951,621 | 3,951,621 | (120,869) | 157,515 | 36,646 | 3,988,267 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | |
| Legal reserve appropriated | - | - | 868,226 | - | (868,226) | - | - | - | - | - |
| Cash dividends of common shares | - | - | - | - | (4,532,702) | (4,532,702) | - | - | - | (4,532,702) |
| Reversal of special reserve | - | - | - | (10,784) | 10,784 | - | - | - | - | - |
| Changes in equity of associates accounted for using the equity method | - | - | - | - | (422,984) | (422,984) | - | - | - | (422,984) |
| Share-based payments | - | 115,959 | - | - | - | - | - | - | - | 115,959 |
| Disposal of investments in equity instruments measured at fair value through other comprehensive income | - | - | - | - | 26,873 | 26,873 | - | (26,873) | (26,873) | - |
| Balance at June 30, 2021 | \$ 1,970,740 | 6,702,132 | 5,174,757 | 165,341 | 20,446,605 | 25,786,703 | (157,960) | 2,392 | (155,568) | 34,304,007 |
| Balance at January 1, 2022 | \$ 1,970,740 | 7,238,436 | 5,530,308 | 155,568 | 22,310,098 | 27,995,974 | (143,563) | 246,847 | 103,284 | 37,308,434 |
| Net profit for the period | - | - | - | - | 3,991,915 | 3,991,915 | - | - | - | 3,991,915 |
| Other comprehensive income (loss) for the period | - | - | - | - | - | - | 126,893 | (98,217) | 28,676 | 28,676 |
| Total comprehensive income (loss) for the period | - | - | - | - | 3,991,915 | 3,991,915 | 126,893 | (98,217) | 28,676 | 4,020,591 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | |
| Legal reserve appropriated | - | - | 418,001 | - | (418,001) | - | - | - | - | - |
| Cash dividends of common shares | - | - | - | - | (2,561,962) | (2,561,962) | - | - | - | (2,561,962) |
| Reversal of special reserve | - | - | - | (155,568) | 155,568 | - | - | - | - | - |
| Changes in equity of associates accounted for using the equity method | - | 19,582 | - | - | - | - | - | - | - | 19,582 |
| Share-based payments | - | 201,077 | - | - | - | - | - | - | - | 201,077 |
| Balance at June 30, 2022 | \$ 1,970,740 | 7,459,095 | 5,948,309 | - | 23,477,618 | 29,425,927 | (16,670) | 148,630 | 131,960 | 38,987,722 |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Cash Flows

For the six months ended June 30, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

| | For the six months ended June 30, | |
|--------------------------------------------------------------------------|-----------------------------------|-------------|
| | 2022 | 2021 |
| Cash flows from operating activities: | | |
| Profit before income tax | \$ 4,800,087 | 4,808,531 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expense | 307,720 | 220,950 |
| Amortization expense | 171,507 | 122,127 |
| Expected credit loss | 18,245 | 55,431 |
| Net loss (gain) on financial assets at fair value through profit or loss | 249,721 | (307,453) |
| Finance costs | 18,492 | 10,933 |
| Interest income | (23,137) | (18,259) |
| Dividend income | (72,501) | (36,059) |
| Share-based payments | 201,077 | 115,959 |
| Shares of profit of associates accounted for using the equity method | (1,133) | (142,011) |
| Gain on disposal of property, plant and equipment | (23) | - |
| Gain on disposal of investments accounted for using the equity method | (27,689) | - |
| Unrealized profit (loss) on transactions with associates | 38,740 | 47,199 |
| Unrealized foreign exchange gain | (242,128) | (4,736) |
| Inventory obsolescence loss (reversal gain) | 354,507 | (213,763) |
| Recognition (reversal) of refund liabilities | (963) | 393,973 |
| Profit from lease modification | (190) | (5) |
| Gain recognized in bargain purchase transaction | (16,289) | - |
| Total adjustments to reconcile profit (loss) | 975,956 | 244,286 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable (including related parties) | 707,941 | (2,169,488) |
| Other receivables | 243,023 | (149,203) |
| Inventories | (4,050,927) | (5,244,631) |
| Prepayments | (12,687) | (31,052) |
| Other current assets | 429 | (2,506) |
| Contract liabilities | 39,824 | 78,816 |
| Accounts payable (including related parties) | (4,353,798) | 1,496,517 |
| Other payables | (116,875) | 482,584 |
| Other current liabilities | (34,541) | (58,069) |
| Net defined benefit liabilities | 811 | 530 |
| Total changes in operating assets and liabilities | (7,576,800) | (5,596,502) |
| Cash outflow generated from operations | (1,800,757) | (543,685) |
| Interest paid | (3,838) | (6,104) |
| Income taxes paid | (1,067,984) | (323,912) |
| Net cash flows used in operating activities | (2,872,579) | (873,701) |

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

Phison Electronics Corp. and subsidiaries
Consolidated Statements of Cash Flows (Continued)
For the three and six months ended June 30, 2022 and 2021
(Expressed in Thousands of New Taiwan Dollars)

| | For the six months ended June 30, | |
|-------------------------------------------------------------------------------------------|------------------------------------------|--------------------------|
| | 2022 | 2021 |
| Cash flows from investing activities: | | |
| Acquisition of financial assets at fair value through other comprehensive income | (14,990) | (85,005) |
| Acquisition of financial assets at amortized cost | (30) | (3,652,671) |
| Proceeds from disposal of financial assets at amortized cost | 545,606 | 2,791,061 |
| Acquisition of financial assets at fair value through profit or loss | - | (203,338) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 12,971 | 4,721,119 |
| Proceeds from capital reduction of financial assets at fair value through profit and loss | 7,245 | 15,300 |
| Net cash flow from acquisition of subsidiaries | (24,547) | - |
| Proceeds from capital reduction of investments accounted for using the equity method | - | 54,457 |
| Acquisition of property, plant and equipment | (1,110,016) | (971,982) |
| Proceeds from disposal of property, plant and equipment | 56 | - |
| Increase in refundable deposits | (12,251) | (418) |
| Acquisition of intangible assets | (177,981) | (91,576) |
| Increase in prepayments for land and equipment | (42,486) | (136,815) |
| Interest received | 23,082 | 17,051 |
| Dividends received | 71,714 | 107,372 |
| Net cash flows from (used in) investing activities | <u>(721,627)</u> | <u>2,564,555</u> |
| Cash flows from financing activities: | | |
| Increase in short-term loans | 1,967,656 | 6,119,359 |
| Decrease in short-term loans | (2,380,651) | (4,145,351) |
| Repayments of long-term borrowings | (15,350) | (15,186) |
| Increase (decrease) in guarantee deposits received | 2,488,752 | (1,119) |
| Payment of lease liabilities | (24,421) | (10,074) |
| Cash dividends paid | (1,970,740) | - |
| Net cash flows from financing activities | <u>65,246</u> | <u>1,947,629</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>323,986</u> | <u>(60,864)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(3,204,974)</u> | <u>3,577,619</u> |
| Cash and cash equivalents at beginning of period | <u>19,040,947</u> | <u>14,961,122</u> |
| Cash and cash equivalents at end of period | <u>\$ 15,835,973</u> | <u>18,538,741</u> |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

Phison Electronics Corp. and subsidiaries

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Company history

Phison Electronics Corp. (the “Company”) was incorporated on November 8, 2000, with the approval of the Ministry of Economic Affairs, R.O.C. The major business activities of the Company and its subsidiaries (the “Group”) are the design and manufacturing of flash memory controllers and peripheral system applications. The Company’s shares have been trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

2. Approval date and procedures of the consolidated financial statements

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on July 29, 2022.

3. New standards, amendments and interpretations adopted

- (1) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2022:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018—2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

- (2) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2023, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

- (3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”

As of the date the consolidated financial statements were authorized for issue, except for IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts” is not relevant to the Group, the Group is evaluating the impact of its initial adoption of the remaining abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

4. Summary of significant accounting policies

- (1) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to as IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except for the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2021. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2021.

- (2) Basis of consolidation

Principles of preparation of the consolidated financial statements were the same as those of the consolidated financial statements for the year ended December 31, 2021. For the related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2021.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

A. List of subsidiaries in the consolidated financial statements

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

| Name investor | Name of subsidiary | Principal activity | Shareholding (%) | | | Note |
|-------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|---------------|--------|
| | | | June 30, 2022 | December 31, 2021 | June 30, 2021 | |
| The Company | Lian Xu Dong Investment Corporation | Investment | 100 | 100 | 100 | |
| The Company | Phison Electronics Japan Corp. | Sales and service office | 100 | 100 | 100 | |
| The Company | Emtops Electronics Corp. | Investment | 100 | 100 | 100 | |
| The Company | Phisontech Electronics Taiwan Corp. | Investment and trade | 100 | 100 | 100 | |
| The Company | Global Flash Limited | Investment and trade | 100 | 100 | 100 | |
| The Company | Power Flash (Samoa) Limited | Investment and trade | 100 | 100 | 100 | |
| The Company | Everspeed Technology Limited | Trade of electronic components | 100 | 100 | 100 | Note 1 |
| The Company | Regis Investment (Samoa) Limited | Investment | 100 | 100 | 100 | |
| The Company | Nextorage Corporation | R&D, design, manufacture and sale of flash memory application products | 100 | 49 | 49 | Note 2 |
| Global Flash Limited | Core Storage Electronic (Samoa) Limited | Investment and trade | 100 | 100 | 100 | |
| Lian Xu Dong Investment Corporation | Ostek Corporation | Manufacture and trade of electronic components | 100 | 100 | 100 | |
| Power Flash (Samoa) Limited | Power Flash (HK) Limited | Sale of electronic products | 100 | 100 | 100 | |
| Power Flash (Samoa) Limited | Power Storage Technology (Shenzhen) Limited | Design, R&D, import and export of storage devices and electronic components | 100 | - | - | Note 3 |
| Everspeed Technology Limited | Memoryexchange Corporation | Manufacture and sale of flash memory related products | - | - | - | Note 4 |
| Regis Investment (Samoa) Limited | RealYou Investment Limited | Investment | 100 | 100 | 100 | |
| 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 | 100 | 100 | |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| Name investor | Name of subsidiary | Principal activity | Shareholding (%) | | | Note |
|-------------------------------------|--------------------------------------|------------------------------------------------|------------------|-------------------|---------------|------|
| | | | June 30, 2022 | December 31, 2021 | June 30, 2021 | |
| Emtops Electronics Corp. | Phison Technology Inc. | Sales and service office | 100 | 100 | 100 | |
| Phisontech Electronics Taiwan Corp. | Super Storage Technology Corporation | Manufacture and trade of electronic components | 100 | 100 | 100 | |

Note 1: The liquidation procedure of Everspeed Technology Limited is in progress.

Note 2: Since January 1, 2022, Nextorage Corporation has become a 100%-held subsidiary of the Company. Please refer to note 6(9) for related information.

Note 3: For operation needs, the Company set up Power Storage Technology (Shenzhen) Limited in Shenzhen, Mainland China, in January 2022.

Note 4: Memoryexchange Corporation ended its operations in March 2021, and was liquidated in March 2022.

Note 5: The abovementioned subsidiaries are all non-significant subsidiaries, the financial statements of which have not been reviewed by independent auditors.

B. Subsidiaries excluded from the consolidated financial statements: None.

(3) Employee benefits

The pension cost in the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year.

(4) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period using the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

5. Critical accounting judgements and key sources of estimations and assumptions uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

The preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2021. For related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2021.

6. Description of significant accounts

Except for the following disclosures, there were no material differences in the disclosures of significant accounts between the interim consolidated financial statements for the current period and the consolidated financial statements for the year ended December 31, 2021. Please refer to Note 6 of consolidated financial statements for the year ended December 31, 2021.

(1) Cash and cash equivalent

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|------------------------------------|--------------------------|------------------------------|--------------------------|
| Cash | \$ 158 | 230 | 125 |
| Demand deposits and check deposits | 9,762,610 | 13,292,251 | 11,102,398 |
| Cash equivalents – time deposits | <u>6,073,205</u> | <u>5,748,466</u> | <u>7,436,218</u> |
| | <u>\$ 15,835,973</u> | <u>19,040,947</u> | <u>18,538,741</u> |

Please refer to note 6(26) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(2) Financial assets at fair value through profit or loss

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|----------------------------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Financial assets at fair value through profit or loss – current: | | | |
| Beneficiary certificates – open-end funds | \$ 474,700 | 473,978 | 473,508 |
| Domestic listed stock | 513,899 | 728,076 | 688,376 |
| Derivative instruments – convertible bonds (note 6(17)) | <u>-</u> | <u>4,900</u> | <u>-</u> |
| | <u>\$ 988,599</u> | <u>1,206,954</u> | <u>1,161,884</u> |
| Financial assets at fair value through profit or loss – non-current: | | | |
| Domestic private equity funds | \$ 83,714 | 39,909 | 40,373 |
| Domestic listed stocks | - | - | 28,350 |
| Domestic unlisted stocks | 196,158 | 302,867 | 383,480 |
| Foreign unlisted stocks | <u>120,115</u> | <u>108,793</u> | <u>92,241</u> |
| | <u>\$ 399,987</u> | <u>451,569</u> | <u>544,444</u> |

None of financial assets mentioned above were pledged as collateral.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(3) Financial assets at amortized cost—current

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|----------------------------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Segregated foreign exchange deposit account for Offshore Funds | \$ 1,709 | 528,235 | 1,120,244 |
| Pledged time deposits | <u>40,489</u> | <u>40,459</u> | <u>40,449</u> |
| | <u>\$ 42,198</u> | <u>568,694</u> | <u>1,160,693</u> |

- A. 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.
- B. The Group estimated that the expected credit risk of the above financial assets is limited and the credit risk of original recognition has not increased.
- C. The financial assets mentioned above were pledged as collateral. Please refer to note 8.

(4) Financial assets at fair value through other comprehensive income—non-current

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|--------------------------|--------------------------|------------------------------|--------------------------|
| Domestic unlisted stocks | \$ 298,242 | 294,433 | 228,887 |
| Foreign unlisted stocks | <u>339,792</u> | <u>340,324</u> | <u>275,610</u> |
| | <u>\$ 638,034</u> | <u>634,757</u> | <u>504,497</u> |

The Group held the abovementioned equity investment for long-term strategic purpose, but rather than for trading purpose. Therefore, those equity investments have been designated as financial assets at fair value through other comprehensive income. None of the financial assets mentioned above were pledge as collateral.

(5) Accounts receivable, net (including related and non-related parties)

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|-------------------------------------|--------------------------|------------------------------|--------------------------|
| Accounts receivable | \$ 6,491,062 | 5,955,927 | 6,687,518 |
| Accounts receivable—related parties | <u>2,098,238</u> | <u>2,821,043</u> | <u>1,543,554</u> |
| | 8,589,300 | 8,776,970 | 8,231,072 |
| Less: loss allowance | <u>(65,954)</u> | <u>(47,709)</u> | <u>(96,540)</u> |
| Accounts receivable, net | <u>\$ 8,523,346</u> | <u>8,729,261</u> | <u>8,134,532</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

The Group measures the loss allowance for accounts receivable at an amount equal to lifetime expected credit losses. The expected credit losses on accounts receivable 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 an accounts 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 accounts receivable are over two years past due, whichever occurs earlier. For accounts receivable 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 accounts receivable (including related and non-related parties) based on the Group's allowance matrix.

| | June 30, 2022 | | |
|-----------------------------|----------------------------------|------------------------------------------------|-----------------------|
| | Gross carrying amount | Weighted- average loss rate (%) | Loss allowance |
| Current | \$ 8,392,727 | 0.23 | 18,901 |
| 1~60 days past due | 145,807 | 3.85 | 5,608 |
| 61~90 days past due | 22,374 | 58.39 | 13,064 |
| 91~120 days past due | 39 | 71.79 | 28 |
| 121~150 days past due | 56 | 100.00 | 56 |
| More than 151 days past due | 28,297 | 100.00 | 28,297 |
| | \$ 8,589,300 | | 65,954 |
| | December 31, 2021 | | |
| | Gross carrying amount | Weighted- average loss rate (%) | Loss allowance |
| Current | \$ 8,373,036 | 0.21 | 17,670 |
| 1~60 days past due | 384,532 | 4.47 | 17,192 |
| 61~90 days past due | 1,145 | 36.59 | 419 |
| 91~120 days past due | 10,521 | 45.26 | 4,762 |
| 121~150 days past due | 518 | 86.48 | 448 |
| More than 151 days past due | 7,218 | 100.00 | 7,218 |
| | \$ 8,776,970 | | 47,709 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| | June 30, 2021 | | |
|-----------------------------|----------------------------------|------------------------------------------------|-----------------------|
| | Gross carrying amount | Weighted- average loss rate (%) | Loss allowance |
| Current | \$ 7,551,610 | 0.18 | 13,254 |
| 1~60 days past due | 570,861 | 6.31 | 36,030 |
| 61~90 days past due | 96,446 | 36.59 | 35,290 |
| 91~120 days past due | 279 | 45.16 | 126 |
| 121~150 days past due | 267 | 86.52 | 231 |
| More than 151 days past due | 11,609 | 100.00 | 11,609 |
| | \$ 8,231,072 | | 96,540 |

The movements in the loss allowance for accounts receivable (including related and non-related parties) were as follows:

| | For the six months ended June 30, | |
|----------------------------------|----------------------------------------------|---------------|
| | 2022 | 2021 |
| Balance, beginning of the period | \$ 47,709 | 41,109 |
| Impairment losses recognized | 18,245 | 55,431 |
| Balance, end of the period | \$ 65,954 | 96,540 |

None of the accounts receivable mentioned above were pledged as collateral. As the average credit term of 30~90 days is similar with the practical in the industry, there are no finance elements included.

The Group entered into an un-recourse factoring agreement with the factor to sell its accounts receivable. Under the agreement, except necessary agreed expenses, the Group does not have the responsibility to assume the default risk of the transferred accounts receivable. The Group derecognized the above accounts receivable, because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them. The amounts receivable from the factor were recognized as “other receivables” upon the derecognition of those accounts receivable. The outstanding sold accounts receivable at the end of the period were as follows:

(Unit: USD in Thousands)

| June 30, 2022 | | | | |
|----------------------------|----------------------|-----------------------------------------------------------|------------------------------------------------|-------------------------------|
| Factor | Factor Amount | Amount Recognized in Other Receivables | Range of Handling Fees Rate (%) | Transferring Terms |
| HSBC Bank (Taiwan) Limited | \$ 1,961 | 1,615 | 0.55~0.65 | Note 1~4 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| December 31, 2021 | | | | |
|----------------------------|----------------------|-----------------------------------------------------------|------------------------------------------------|-------------------------------|
| Factor | Factor Amount | Amount Recognized in Other Receivables | Range of Handling Fees Rate (%) | Transferring Terms |
| HSBC Bank (Taiwan) Limited | \$ <u>1,748</u> | <u>1,528</u> | 0.55~0.65 | Note 1~4 |

| June 30, 2021 | | | | |
|----------------------------|----------------------|-----------------------------------------------------------|------------------------------------------------|-------------------------------|
| Factor | Factor Amount | Amount Recognized in Other Receivables | Range of Handling Fees Rate (%) | Transferring Terms |
| HSBC Bank (Taiwan) Limited | \$ <u>1,166</u> | <u>1,005</u> | 0.55~0.65 | Note 1~4 |

Note 1: The accounts receivable transferred to the factoring bank are subjected to the consents of agreement between the Group and the bank and credit decision advices without recourse. No financing from the factoring bank agreement is within the factored accounts receivable.

Note 2: The Group informed its customers to make payment directly to the factoring bank.

Note 3: As of June 30, 2022, December 31, 2021, and June 30, 2021, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$47,993 thousand, \$42,292 thousand and \$27,991 thousand, respectively, were recognized under other receivables.

Note 4: To the extent of the amount transferred to the factor, risks of non-collection or potential payment default by customers in the event of insolvency are borne by the factor. The Group is not responsible for the collection of receivables subject to these facilities, or for any legal proceedings and costs thereof in collecting these receivables. No collaterals were provided by the Group.

(6) Other receivables

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|----------------------------------------------|--------------------------|------------------------------|--------------------------|
| Tax refund receivable | \$ 323,305 | 470,137 | 334,815 |
| Factored accounts receivable | 47,993 | 42,292 | 27,991 |
| Liquidation refund receivable from investees | - | 70,991 | 76,085 |
| Others | 51,456 | 40,492 | 17,203 |
| Less: Loss allowance | - | - | - |
| Other receivables | <u>\$ 422,754</u> | <u>623,912</u> | <u>456,094</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(7) Inventories

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|---------------------|--------------------------|------------------------------|--------------------------|
| Raw materials | \$ 15,571,245 | 11,810,664 | 7,390,083 |
| Work in process | 3,668,165 | 4,647,351 | 5,397,594 |
| Semi-finished goods | 3,852,231 | 2,902,052 | 2,701,875 |
| Finished goods | 209,154 | 136,467 | 110,321 |
| | <u>\$ 23,300,795</u> | <u>19,496,534</u> | <u>15,599,873</u> |

The costs of inventories recognized as costs of goods sold for the three months and six months ended June 30, 2022 and 2021 were \$11,294,357 thousand, \$10,723,295 thousand, \$23,010,717 thousand and \$19,782,407 thousand, respectively.

The costs of goods sold for the three months and six months ended June 30, 2022 and 2021 included inventory obsolescence loss (reversal gain) of \$584,045 thousand, \$(47,716) thousand, \$354,507 thousand and \$(213,763) thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|--------------------------------------------|--------------------------|------------------------------|--------------------------|
| HOSIN Global Electronics Co., Ltd. (SZ) | \$ 3,496,042 | 3,402,515 | 2,912,161 |
| EpoStar Electronics (BVI) Corporation | 334,767 | 421,077 | 231,806 |
| Hefei Xinpeng Technology Co., Ltd. | 103,365 | 135,886 | 140,780 |
| ProGrade Digital Inc. | 113,398 | 98,019 | 94,469 |
| Microtops Design Corporation | 24,592 | 23,282 | 23,013 |
| Nextorage Corporation (Note) | - | 74,263 | 136,621 |
| | <u>\$ 4,072,164</u> | <u>4,155,042</u> | <u>3,538,850</u> |

Note: Since January 1, 2022, Nextorage Corporation has become a 100%-held subsidiary of the Company. Please refer to note 6(9) for related information.

A. Associates which are material to the Group consisted of the followings:

| <u>Name of Associates</u> | <u>Principal Activity</u> | <u>Main Operating Location/ Registered Country</u> | <u>Ownership interest (%)</u> | | |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------|------------------------------|--------------------------|
| | | | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
| HOSIN Global Electronics Co., Ltd. (SZ) | R&D and sale of electronic product and technical service and rendering of related services | China | 42.63 | 42.63 | 44.35 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

The following consolidated financial information of significant associates has been adjusted according to individually prepared IFRS financial statements of these associates to express the adjustment due to the change in fair value when the Group obtained the ownership of the associates and the effect of different accounting polices:

HOSIN Global Electronics Co., Ltd. (SZ) and its subsidiaries

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-------------------------|--------------------------|------------------------------|--------------------------|
| Current assets | \$ 12,376,232 | 8,691,933 | 5,344,553 |
| Non-current assets | 5,045,768 | 5,079,009 | 4,321,102 |
| Current liabilities | (8,597,444) | (5,280,167) | (2,563,179) |
| Non-current liabilities | (437,829) | (444,712) | (335,189) |
| Net assets | <u>\$ 8,386,727</u> | <u>8,046,063</u> | <u>6,767,287</u> |

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--------------------------------------|------------------------------------------------|------------------|----------------------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Operating revenue | <u>\$ 5,558,025</u> | <u>2,777,306</u> | <u>12,800,827</u> | <u>5,470,371</u> |
| Net profit (loss) | \$ (835) | 162,607 | 52,218 | 301,471 |
| Other comprehensive income (loss) | 109,367 | (20,063) | 108,021 | (10,258) |
| Total comprehensive income (loss) | <u>\$ 108,532</u> | <u>142,544</u> | <u>160,239</u> | <u>291,213</u> |

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-------------------------------------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Summarized information of the carrying amount of significant associates | <u>\$ 3,496,042</u> | <u>3,402,515</u> | <u>2,912,161</u> |

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--------------------------------------|------------------------------------------------|---------------|----------------------------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| Attributable to the Group: | | | | |
| Net profit (loss) | \$ 19,157 | 37,276 | 17,445 | 100,906 |
| Other comprehensive income (loss) | (51,074) | (18,392) | 35,048 | (69,717) |
| Total comprehensive income (loss) | <u>\$ (31,917)</u> | <u>18,884</u> | <u>52,493</u> | <u>31,189</u> |

The Group subscribed 54,095 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of 24.41% ownership (the amount of contribution was CNY54,095 thousand) in Heifei Core Storage Electronic Limited in February 2021.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

Besides the abovementioned stock transfer, the Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2021, therefore, the Group reversed retained earnings of \$416,037 thousand for the six months ended June 30, 2021.

- B. The Group's financial information for investments accounted for using the equity method that are individually insignificant was as follows:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------|--------------------------|
| Summarized information of the carrying amount of associates that were not individually material | \$ <u>576,122</u> | <u>752,527</u> | <u>626,689</u> |
| | For the three months ended June 30, | For the six months ended June 30, | |
| | 2022 | 2021 | 2022 |
| Attributable to the Group: | | | |
| Net profit (loss) | \$ (14,318) | 6,561 | (16,312) |
| Other comprehensive income (loss) | <u>(83,620)</u> | <u>53,778</u> | <u>(81,352)</u> |
| Total comprehensive income (loss) | \$ <u>(97,938)</u> | <u>60,339</u> | <u>(97,664)</u> |

Due to the capital reduction of EpoStar Electronics (BVI) Corporation amounting to \$54,457 thousand, the Group reversed retained earnings of \$6,947 thousand for the six months ended June 30, 2021.

- C. Pledged

None of the investments accounted for using the equity method mentioned above were pledged as collateral.

- D. The unreviewed financial statements of investments accounted for using the equity method

The abovementioned investments accounted for using the equity method and its shares of profit or loss and other comprehensive income were calculated based on the financial statements that have not been reviewed by independent auditors.

- (9) Business Combinations

For the purpose of improving advanced customized storage devices to meet the demand of Japan and global market, the Company acquired 6,120 common shares of Nextorage Corporation in cash amounting to JPY578,217 thousand. Therefore, since January 1, 2022, Nextorage was no longer a 49%-held investee accounted for using the equity method, and became a 100%-held subsidiary of the Company.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

A. Acquired identifiable assets and assumed liabilities at the date of acquisition

| | |
|-------------------------------|-------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 113,936 |
| Accounts receivable, net | 452,438 |
| Other receivables | 41,050 |
| Inventories | 107,841 |
| Other current assets | 801 |
| Non-current assets: | |
| Property, plant and equipment | 36,137 |
| Intangible assets | 2,401 |
| Other non-current assets | 68,313 |
| Current liabilities: | |
| Accounts payable | (368,896) |
| Other payables | (148,709) |
| Other current liabilities | (1,837) |
| | <u>\$ 303,475</u> |

B. Net cash outflow of the acquisition of subsidiaries

| | |
|-----------------------------------------|------------------|
| Consideration paid in cash | \$ 138,483 |
| Less: cash and cash equivalent acquired | <u>(113,936)</u> |
| | <u>\$ 24,547</u> |

Gain on a bargain purchase from acquisition was as follows:

| | |
|---------------------------------------------------------|--------------------|
| Consideration transferred | \$ 138,483 |
| Plus: fair value of pre-existing interest in Nextorage | 148,703 |
| Less: fair value of identifiable assets | <u>303,475</u> |
| Gain on a bargain purchase (recognized as other income) | <u>\$ (16,289)</u> |

The Group re-measured the fair value of its existing equity interest of 49% in Nextorage before the acquisition date, and the deemed gain on disposal of investments accounted for using the equity method of \$27,689 thousand was recognized as “other gains and losses” on the consolidated statement of comprehensive income for the six months ended June 30, 2022.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(10) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group were as follows:

| | <u>Land</u> | <u>Buildings</u> | <u>Mechanical and testing equipment</u> | <u>Office and other equipment</u> | <u>Construction in progress</u> | <u>Total</u> |
|------------------------------------------|---------------------|------------------|-------------------------------------------------|-------------------------------------------|-------------------------------------|------------------|
| Cost: | | | | | | |
| Balance at January 1, 2022 | \$ 1,762,820 | 2,626,517 | 1,371,564 | 274,718 | 1,982,139 | 8,017,758 |
| Additions for the period | 386,283 | 218,154 | 208,138 | 51,918 | 215,997 | 1,080,490 |
| Acquisition through business combination | 189 | 10,841 | 1,519 | 23,376 | 212 | 36,137 |
| Disposal for the period | - | - | (98,305) | (17,807) | - | (116,112) |
| Reclassification | - | 2,158,507 | 17,374 | 12,632 | (2,189,389) | (876) |
| Effect of movements in exchange rates | (26) | (1,090) | 1,071 | (839) | (20) | (904) |
| Balance at June 30, 2022 | <u>\$ 2,149,266</u> | <u>5,012,929</u> | <u>1,501,361</u> | <u>343,998</u> | <u>8,939</u> | <u>9,016,493</u> |
| Balance at January 1, 2021 | \$ 1,144,737 | 2,603,639 | 1,096,016 | 222,036 | 712,397 | 5,778,825 |
| Additions for the period | - | 5,582 | 202,843 | 53,335 | 724,603 | 986,363 |
| Disposal for the period | - | - | (81,100) | (2,314) | - | (83,414) |
| Reclassification | - | - | 34,330 | 5,452 | - | 39,782 |
| Effect of movements in exchange rates | - | - | (1,099) | (419) | - | (1,518) |
| Balance at June 30, 2021 | <u>\$ 1,144,737</u> | <u>2,609,221</u> | <u>1,250,990</u> | <u>278,090</u> | <u>1,437,000</u> | <u>6,720,038</u> |
| Depreciation: | | | | | | |
| Balance at January 1, 2022 | \$ - | 596,723 | 634,894 | 135,579 | - | 1,367,196 |
| Depreciation for the period | - | 52,266 | 191,829 | 39,102 | - | 283,197 |
| Disposal for the period | - | - | (98,286) | (17,793) | - | (116,079) |
| Effect of movements in exchange rates | - | (24) | (6) | 411 | - | 381 |
| Balance at June 30, 2022 | <u>\$ -</u> | <u>648,965</u> | <u>728,431</u> | <u>157,299</u> | <u>-</u> | <u>1,534,695</u> |
| Balance at January 1, 2021 | \$ - | 518,527 | 506,588 | 107,170 | - | 1,132,285 |
| Depreciation for the period | - | 38,874 | 143,581 | 28,265 | - | 210,720 |
| Disposal for the period | - | - | (81,100) | (2,314) | - | (83,414) |
| Effect of movements in exchange rates | - | - | (249) | (14) | - | (263) |
| Balance at June 30, 2021 | <u>\$ -</u> | <u>557,401</u> | <u>568,820</u> | <u>133,107</u> | <u>-</u> | <u>1,259,328</u> |
| Carrying amounts: | | | | | | |
| Balance at January 1, 2022 | <u>\$ 1,762,820</u> | <u>2,029,794</u> | <u>736,670</u> | <u>139,139</u> | <u>1,982,139</u> | <u>6,650,562</u> |
| Balance at June 30, 2022 | <u>\$ 2,149,266</u> | <u>4,363,964</u> | <u>772,930</u> | <u>186,699</u> | <u>8,939</u> | <u>7,481,798</u> |
| Balance at January 1, 2021 | <u>\$ 1,144,737</u> | <u>2,085,112</u> | <u>589,428</u> | <u>114,866</u> | <u>712,397</u> | <u>4,646,540</u> |
| Balance at June 30, 2021 | <u>\$ 1,144,737</u> | <u>2,051,820</u> | <u>682,170</u> | <u>144,983</u> | <u>1,437,000</u> | <u>5,460,710</u> |

Part of the property, plant and equipment mentioned above was pledged as collateral for bank loans. Please refer to note 8.

To increase the scale of operations, the Company'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 Company. The total price of the project was approximately \$1,398,000 thousand. The Company financed the construction with its own funds. In addition, the Company'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 Company. The total price of the project was approximately \$829,000 thousand. The aforementioned construction project was completed and accepted in June 2022.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

On May 27, 2021, the Company's Board of Directors resolved to purchase the land with buildings for the Company to expand operations in the future. The total amount without V.A.T of the purchase was \$607,865 thousand.

On January 21, 2022, the Company's Board of Directors resolved to participate the land auction for acquiring the land located on Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government to set up a compound leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount was \$346,660 thousand.

(11) Lease arrangements

A. Right-of-use assets

The Group leases assets including buildings and transportation equipment. Information about leases was as follows:

| | <u>Buildings</u> | <u>Transportation equipment</u> | <u>Others</u> | <u>Total</u> |
|----------------------------|-------------------|-------------------------------------|---------------|----------------|
| Carrying amounts: | | | | |
| Balance at January 1, 2022 | \$ <u>37,935</u> | <u>519</u> | <u>822</u> | <u>39,276</u> |
| Balance at June 30, 2022 | \$ <u>132,617</u> | <u>854</u> | <u>-</u> | <u>133,471</u> |
| Balance at June 30, 2021 | \$ <u>28,666</u> | <u>710</u> | <u>2,465</u> | <u>31,841</u> |

The Group has leased offices in Taipei for operation needs since the first quarter of 2022, therefore, right-of-use assets and lease liabilities of the Group both increased \$100,116 thousand. Except for the aforementioned additions, there was no significant addition, disposal, or recognition and reversal of impairment losses of right-of-use assets of the Group for the six months ended June 30, 2022 and 2021. Please refer to note 6(11) of the consolidated financial statements for the year ended December 31, 2021, for other related information.

The depreciation expenses arising from leased land, buildings, transportation equipment and office equipment were as follows:

| | <u>Buildings</u> | <u>Transportation equipment</u> | <u>Others</u> | <u>Total</u> |
|---------------------------------------------|------------------|-------------------------------------|---------------|---------------|
| For the three months ended June 30, 2022 | \$ <u>10,631</u> | <u>100</u> | <u>-</u> | <u>10,731</u> |
| For the three months ended June 30, 2021 | \$ <u>4,266</u> | <u>178</u> | <u>822</u> | <u>5,266</u> |
| For the six months ended June 30, 2022 | \$ <u>23,507</u> | <u>194</u> | <u>822</u> | <u>24,523</u> |
| For the six months ended June 30, 2021 | \$ <u>8,189</u> | <u>397</u> | <u>1,644</u> | <u>10,230</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

B. Lease liabilities

The carrying amounts of lease liabilities of the Group were as follows:

| | <u>June 30,</u> <u>2022</u> | <u>December 31,</u> <u>2021</u> | <u>June 30,</u> <u>2021</u> |
|-------------|--------------------------------|------------------------------------|--------------------------------|
| Current | \$ <u>41,662</u> | <u>24,027</u> | <u>19,396</u> |
| Non-current | \$ <u>92,480</u> | <u>16,003</u> | <u>12,837</u> |

For the maturity analysis, please refer to note 6(26) “Financial instruments”.

The amounts recognized in profit or loss during the lease term were as follows:

| | <u>For the three months ended</u> <u>June 30,</u> | | <u>For the six months ended</u> <u>June 30,</u> | |
|------------------------------------------------------------------------------------------------|------------------------------------------------------|--------------|----------------------------------------------------|--------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Interest expenses relating to lease liabilities | \$ <u>252</u> | <u>191</u> | <u>605</u> | <u>405</u> |
| Expenses relating to short-term lease | \$ <u>974</u> | <u>1,433</u> | <u>3,599</u> | <u>2,022</u> |
| Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets | \$ <u>282</u> | <u>136</u> | <u>453</u> | <u>342</u> |

The amounts relating to lease recognized in the statement of cash flows for were as follows:

| | <u>For the six months ended</u> <u>June 30,</u> | |
|-------------------------------|----------------------------------------------------|---------------|
| | <u>2022</u> | <u>2021</u> |
| Total cash outflow for leases | \$ <u>29,078</u> | <u>12,843</u> |

C. Other information about leases

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

(12) Intangible assets

| | <u>Computer software</u> | <u>Technology License Fees</u> | <u>Total</u> |
|----------------------------|--------------------------|--------------------------------|----------------|
| Carrying amounts: | | | |
| Balance at January 1, 2022 | \$ <u>256,196</u> | <u>58,475</u> | <u>314,671</u> |
| Balance at June 30, 2022 | \$ <u>288,696</u> | <u>34,509</u> | <u>323,205</u> |
| Balance at June 30, 2021 | \$ <u>236,539</u> | <u>46,794</u> | <u>283,333</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

There was no significant addition or disposal of intangible assets of the Group for the six months ended June 30, 2022 and 2021. Please refer to note 12 for the amount of amortization for the three and six months ended June 30, 2022 and 2021. Please refer to note 6(12) of the consolidated financial statements for the year ended December 31, 2021 for the other related information.

(13) Short-term borrowings

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Unsecured bank loans | \$ - | 409,216 | 3,389,916 |
| Secured bank loans | 30,000 | 30,000 | 30,000 |
| | \$ 30,000 | 439,216 | 3,419,916 |
| Range of interest rates at the end of period (%) | 1.19 | 0.50~1.07 | 0.52~1.07 |

Part of the property, plant and equipment of the Group was pledged as collateral for bank loans. Please refer to note 8.

(14) Other payables

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|---------------------------------------|--------------------------|------------------------------|--------------------------|
| Salaries and bonus payable | \$ 6,582,777 | 6,711,819 | 5,513,801 |
| Interim dividend payable (note 6(20)) | 2,561,962 | 1,970,740 | 4,532,702 |
| Others | 1,316,294 | 1,138,587 | 991,124 |
| | \$ 10,461,033 | 9,821,146 | 11,037,627 |

(15) Other current liabilities

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-----------------------------------------|--------------------------|------------------------------|--------------------------|
| Refund liabilities | \$ 770,857 | 828,962 | 776,897 |
| Guarantee deposits received (note 9(3)) | 891,600 | - | - |
| Payables for purchases of equipment | 71,079 | 100,605 | 44,880 |
| Receipts under custody | 83,816 | 64,036 | 70,936 |
| Others | 59,751 | 55,093 | 61,938 |
| | \$ 1,877,103 | 1,048,696 | 954,651 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(16) Long-term borrowings

| June 30, 2022 | | | |
|--------------------------|----------------------------------------------------------------|-----------------------------|--------------------------|
| | Rate of interest rates at the end of period (%) | Year of maturity | Amount |
| Secured bank loans | 1.88 | January, 2028 | \$ 180,286 |
| Less: current portion | | | (30,991) |
| Total | | | <u>\$ 149,295</u> |
| December 31, 2021 | | | |
| | Rate of interest rates at the end of period (%) | Year of maturity | Amount |
| Secured bank loans | 1.50 | January, 2028 | \$ 195,636 |
| Less: current portion | | | (30,947) |
| Total | | | <u>\$ 164,689</u> |
| June 30, 2021 | | | |
| | Rate of interest rates at the end of period (%) | Year of maturity | Amount |
| Secured bank loans | 1.50 | January, 2028 | \$ 210,936 |
| Less: current portion | | | (30,716) |
| Total | | | <u>\$ 180,220</u> |

For the collateral for long-term borrowings, please refer to note 8.

(17) Bonds payable

On August 6, 2021, the Company's Board of Directors resolved the issuance of domestic 1st unsecured convertible bonds for purchasing properties, plants and equipment, and replenishing working capital. The issuance was approved by FSC on September 8, 2021. The issuance period is 3 years from December 17, 2021 to December 17, 2024. The total face value of the bonds issued is \$3,500,000 thousand and the coupon rate is 0%.

The details of unsecured convertible bonds were as follows:

| | June 30, 2022 | December 31, 2021 |
|------------------------------------------------|----------------------------|------------------------------|
| Total convertible corporate bonds issued | \$ 3,500,000 | 3,500,000 |
| Unamortized discounted corporate bonds payable | (72,711) | (87,145) |
| Bonds payable at the end of period | <u>\$ 3,427,289</u> | <u>3,412,855</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| | June 30, 2022 | December 31, 2021 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------|
| Embedded derivative – call and conversion options, included in financial assets at fair value through profit or loss – current | \$ - | 4,900 |
| Embedded derivative instruments –Equity component – conversion options, included in capital surplus– stock options | \$ 102,369 | 102,369 |
| | For the three months ended June 30, 2022 | For the six months ended June 30, 2022 |
| Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses | \$ (3,500) | (4,900) |
| Interest expense | \$ 7,267 | 14,434 |

The conversion price per share at the time of issuance of NTD570 is calculated by multiplying the closing price of the Company's common shares traded on Taipei Exchange at one business day before the reference date for determining the conversion price, which is December 9, 2021, of NTD475 by the conversion premium rate of 120%. The number of convertible shares of the bonds is calculated by dividing the issued face value of the bonds by the conversion price. After the issuance of corporate bonds, the conversion price shall be adjusted in accordance with the article related to anti-dilution in the terms of issuance and conversion. Due to the distribution of cash dividends to shareholders, the conversion price shall be adjusted in accordance with the aforementioned terms. Starting from December 27, 2021, the conversion price was adjusted from NTD570 to NTD556.3. Then, starting from July 4, 2022, the conversion price was adjusted from NTD556.3 to NTD537.3.

The unsecured convertible bonds mentioned above included liability and equity components. The equity component is included in capital surplus– stock options. The effective interest rate originally recognized for the liability component was 1.005%.

(18) Employee benefits

A. Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2021 and 2020.

The expenses recognized in profit or loss for the Group were as follows:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---------|------------------------------------------------|-------------|----------------------------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| Pension | \$ 960 | 767 | 1,920 | 1,535 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

B. Defined contribution plans

(a) The pension costs of the Group's domestic subsidiaries under the defined contribution method were as follows, and payment was made to the Bureau of Labor Insurance.

| | For the three months ended | | For the six months ended | |
|---------|----------------------------|---------------|--------------------------|---------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Pension | \$ <u>52,069</u> | <u>36,394</u> | <u>99,984</u> | <u>70,199</u> |

(b) The pension costs of the Group's overseas subsidiaries under the defined contribution method were as follows:

| | For the three months ended | | For the six months ended | |
|---------|----------------------------|------------|--------------------------|------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Pension | \$ <u>1,451</u> | <u>335</u> | <u>2,617</u> | <u>726</u> |

(19) Income tax

A. The income tax expense of the Group is calculated by the profit before tax of interim reporting period multiply by the best estimated measurement of the expected effective tax rate by the management in all the year.

B. The amounts of income tax expense were as follows:

| | For the three months ended | | For the six months ended | |
|---------------------|----------------------------|----------------|--------------------------|----------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Current tax expense | \$ <u>370,595</u> | <u>492,411</u> | <u>808,172</u> | <u>856,910</u> |

C. The amounts of income tax expense recognized in other comprehensive income were as follows:

| | For the three months ended | | For the six months ended | |
|---------------------------------------------------------------------|----------------------------|----------|--------------------------|----------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Exchange differences on translation of foreign financial statements | \$ <u>(5,868)</u> | <u>-</u> | <u>(4,167)</u> | <u>-</u> |

D. Examination and approval

The income tax returns of the Company and Super Storage Technology Corporation had been examined and assessed by the tax authority through 2019. Furthermore, the income tax returns of other domestic subsidiaries had been examined and assessed by the tax authority through 2020.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(20) Equity

A. Common shares

As of June 30, 2022, December 31, 2021, and June 30, 2021, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The issued common shares amounted to \$1,970,740 thousand with par value of NTD10 per share.

B. Capital surplus

The details of the Company's capital surplus were as follows:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------------------|--------------------------|
| Additional paid-in capital | \$ 6,237,434 | 6,237,434 | 6,237,434 |
| Changes in equities of associates accounted for using the equity method | 288,107 | 268,525 | - |
| 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 |
| Changes in ownerships interests in subsidiaries | 1,944 | 1,944 | 1,944 |
| Employee share options | 680,256 | 479,179 | 313,769 |
| Due to recognition of equity component of convertible bonds | 102,369 | 102,369 | - |
| Expired employee share options | <u>227</u> | <u>227</u> | <u>227</u> |
| | <u>\$ 7,459,095</u> | <u>7,238,436</u> | <u>6,702,132</u> |

In accordance with the R.O.C. Company Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned realized capital surplus included share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified under share capital shall not exceed 10 % of the actual share capital amount.

C. Retained earnings and dividend policy

The amendments to the Company's Articles of Incorporation (the "Articles") were approved by the Company's shareholders' meeting on July 26, 2021, which stipulated that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

Under the dividend policy as set forth in the Articles, where the Company 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 Company'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 Company'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 Company'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.

The Company's dividend policy complies with the laws, regulations and the Articles and takes into account the current and future competitions of the Company with domestic and foreign companies, investment environment, capital demand, capital budget, and shareholders' interests to strike a balance between dividends and the long-term financial planning of the Company, so as to foster sustainable operation and stable development. The dividend distribution of the shareholders of the Company 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 Company 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.

If the Company generates profit for the year, the distribution of the legal reserve, either by new shares or by cash, shall be resolved in the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

The appropriation of earnings and cash dividends per share for the first half of 2022 were as follows:

| | First Half of 2022 |
|-----------------------------------------------------|-------------------------------|
| | <u>July 29, 2022</u> |
| Resolution date of the Company's Board of Directors | July 29, 2022 |
| Legal reserve | \$ 399,191 |
| Cash dividends to shareholders | 1,970,740 |
| Cash dividends per share (NTD) | 10 |

The amount of legal reserve for the first half of 2022 will be approved by the annual general meeting of shareholders in the following year.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

The appropriation of earnings for 2021 was as follows:

| | Second Half of 2021 | First Half of 2021 |
|------------------------------------------------------|--------------------------------|-------------------------------|
| | March 4, 2022 | August 6, 2021 |
| Resolution date of the Company's Board of Directors | | |
| Cash dividends to shareholders | \$ 2,561,962 | 1,970,740 |
| Cash dividends per share (NTD) | \$ 13 | 10 |
| Approval date of the Company's shareholders' meeting | May 24, 2022 | May 24, 2022 |
| Legal reserve | \$ 418,001 | 355,551 |
| Reversal of special reserve | \$ (155,568) | (9,773) |

The appropriation of earnings for 2020 was as follows:

| | 2020 |
|--------------------------------------------------------|---------------|
| | July 26, 2021 |
| Resolution date of the Company's shareholders' meeting | |
| Cash dividends to shareholders | \$ 4,532,702 |
| Cash dividends per share (NTD) | \$ 23 |
| Legal reserve | \$ 868,226 |
| Reversal of special reserve | \$ (10,784) |

The aforementioned appropriation of earnings for 2020 was consistent with the proposal made by the Board of Directors on March 11, 2021.

Information on the appropriations of earnings mentioned above is available at the Market Observation Post System website of the Taiwan Stock Exchange.

D. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

| | For the six months ended June 30, | |
|-------------------------------------------|----------------------------------------------|------------------|
| | 2022 | 2021 |
| Balance at January 1 | \$ (143,563) | (37,091) |
| Foreign exchange differences (net of tax) | 126,893 | (120,869) |
| Balance at June 30 | <u>\$ (16,670)</u> | <u>(157,960)</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

| | For the six months ended | |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|
| | June 30, | |
| | 2022 | 2021 |
| Balance at January 1 | \$ 246,847 | (128,250) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax) | (98,217) | 157,515 |
| Disposal for the period | - | (26,873) |
| Balance at June 30 | \$ 148,630 | 2,392 |

(21) Share-based payment

The Company issued employee share options which each unit can be exercised to purchase one share of the Company. The duration of the plan is 3 to 4 years, and the plan was approved by the FSC. As of June 30, 2022, the information related to the employee share options was as follows:

| Type | Authorization date | Issue date | Issued units (in thousands) | Grant Period | Exercise price per share (TWD) | Adjusted exercise price per share (TWD) |
|------------------------------------|--------------------|-------------------|-----------------------------|------------------------------------|--------------------------------|-----------------------------------------|
| 2021 First employee share options | October 4, 2021 | November 19, 2021 | 6,000 | service period between 2~3 years | 414.50 | 404.50 |
| 2020 First employee share options | April 10, 2020 | October 5, 2020 | 6,000 | service period between 2~2.5 years | 262.00 | 243.30 |
| 2019 Second employee share options | November 22, 2019 | October 5, 2020 | 2,000 | service period between 2~2.5 years | 262.00 | 243.30 |

The estimated fair values of the options granted were NTD112.17, NTD59.63, and NTD59.63 at the date of grant using the Black-Scholes option pricing model. The Company granted to the Group's employees 6,000 thousand, 6,000 thousand, and 2,000 thousand units of employee share options, and the Group recognized compensation cost amounting to \$201,077 thousand and \$115,959 thousand for the six months ended June 30, 2022 and 2021, respectively.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

Weighted-average assumptions were as follows:

| | <u>2021 1st</u> | <u>2020 1st</u> | <u>2019 2nd</u> |
|------------------------------|-----------------|-----------------|-----------------|
| Grant-date share price (NTD) | \$ 414.50 | 262.00 | 262.00 |
| Exercise price (NTD) | 414.50 | 262.00 | 262.00 |
| Expected volatility (%) | 37.44~37.96 | 35.27~35.45 | 35.27~35.45 |
| Expected dividend yield (%) | - | - | - |
| Expected life (year) | 4 | 3 | 3 |
| Risk free interest rate (%) | 0.40~0.41 | 0.20~0.22 | 0.20~0.22 |

Information related to employee share options was as follows:

A. 2021 First employee share options

| <u>Employee share options</u> | <u>For the six months ended June 30,</u> | |
|-------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|
| | <u>Number of Options (In Thousands of Units)</u> | <u>Weighted- average exercise price (NTD)</u> |
| Outstanding at January 1 | 5,987 | \$ 404.50 |
| Granted during the period | - | - |
| Exercised during the period | - | - |
| Forfeited during the period | (87) | - |
| Outstanding at June 30 | <u>5,900</u> | 404.50 |
| Exercisable at June 30 | <u>-</u> | |

As of June 30, 2022, the weighted-average remaining contractual life for outstanding option were 3.39 years.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

B. 2020 First employee share options

| | For the six months ended June 30, 2022 | | For the six months ended June 30, 2021 | |
|--------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|
| | Number of Options (In Thousands of Units) | Weighted- average exercise price (NTD) | Number of Options (In Thousands of Units) | Weighted- average exercise price (NTD) |
| <u>Employee share options</u> | | | | |
| Outstanding at January 1 | 5,782 | \$ 243.30 | 5,835 | \$ 262.00 |
| Granted during the period | - | - | - | - |
| Exercised during the period | - | - | - | - |
| Forfeited during the period | (7) | - | (46) | - |
| Outstanding at June 30 | <u>5,775</u> | 243.30 | <u>5,789</u> | 262.00 |
| Exercisable at June 30 | <u>-</u> | | <u>-</u> | |

As of June 30, 2022 and 2021, the weighted-average remaining contractual life for outstanding option were 1.25 and 2.25 years, respectively.

C. 2019 Second employee share options

| | For the six months ended June 30, 2022 | | For the six months ended June 30, 2021 | |
|--------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|
| | Number of Options (In Thousands of Units) | Weighted- average exercise price (NTD) | Number of Options (In Thousands of Units) | Weighted- average exercise price (NTD) |
| <u>Employee share options</u> | | | | |
| Outstanding at January 1 | 1,940 | \$ 243.30 | 1,976 | \$ 262.00 |
| Granted during the period | - | - | - | - |
| Exercised during the period | - | - | - | - |
| Forfeited during the period | (2) | - | (32) | - |
| Outstanding at June 30 | <u>1,938</u> | 243.30 | <u>1,944</u> | 262.00 |
| Exercisable at June 30 | <u>-</u> | | <u>-</u> | |

As of June 30, 2022 and 2021, the weighted-average remaining contractual life for outstanding option, were 1.25 and 2.25 years, respectively.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(22) Earnings per share

The calculations of basic earnings per share and diluted earnings per share of the Company were as follows:

A. Basic earnings per share

| | For the three months ended | | For the six months ended | |
|----------------------------------------------------------------------------------------|-----------------------------------|------------------|---------------------------------|------------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Net profit attributable to ordinary shareholders of the Company | \$ 1,806,854 | 2,264,081 | 3,991,915 | 3,951,621 |
| Weighted-average number of shares outstanding during the year (in thousands of shares) | 197,074 | 197,074 | 197,074 | 197,074 |
| Basic earnings per share (NTD) | \$ 9.17 | 11.49 | 20.26 | 20.05 |

B. Diluted earnings per share

| | For the three months ended | | For the six months ended | |
|----------------------------------------------------------------------------------------|-----------------------------------|------------------|---------------------------------|------------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Net profit attributable to ordinary shareholders of the Company | \$ 1,806,854 | 2,264,081 | 3,991,915 | 3,951,621 |
| Effect of dilutive potential ordinary shares | | | | |
| Convertible bonds | 3,014 | - | 7,627 | - |
| Net profit attributable to ordinary shareholders of the Company | \$ 1,809,868 | 2,264,081 | 3,999,542 | 3,951,621 |
| Weighted average number of shares outstanding during the year (in thousands of shares) | 197,074 | 197,074 | 197,074 | 197,074 |
| Effect of dilutive potential ordinary shares (in thousands of shares) | | | | |
| Employee share options | 3,278 | 3,298 | 3,281 | 3,298 |
| Employees' compensation | 974 | 1,091 | 2,764 | 1,964 |
| Effect of conversion of convertible bonds | 6,292 | - | 6,292 | - |
| | 207,618 | 201,463 | 209,411 | 202,336 |
| Diluted earnings per share (NTD) | \$ 8.72 | 11.24 | 19.10 | 19.53 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(23) Operating revenue

Disaggregation of revenues from contracts with customers was as follows:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|-------------------------------|------------------------------------------------|--------------------------|----------------------------------------------|--------------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Primary geographical markets: | | | | |
| Asia | \$ 12,615,803 | 11,720,978 | 26,751,294 | 21,194,865 |
| America | 2,945,377 | 3,122,855 | 5,194,989 | 5,529,695 |
| Europe | 704,193 | 1,035,880 | 1,400,094 | 2,006,434 |
| Australia | 20,040 | 29,663 | 44,669 | 65,568 |
| Others | <u>2</u> | <u>600</u> | <u>228</u> | <u>1,364</u> |
| | <u>\$ 16,285,415</u> | <u>15,909,976</u> | <u>33,391,274</u> | <u>28,797,926</u> |
| Major product categories: | | | | |
| Flash memory module products | \$ 10,864,316 | 13,172,770 | 23,368,024 | 23,623,264 |
| Controllers | 4,181,218 | 2,085,178 | 7,957,498 | 3,969,465 |
| Integrated Circuit | 611,108 | 578,824 | 1,059,105 | 1,089,431 |
| Others | <u>628,773</u> | <u>73,204</u> | <u>1,006,647</u> | <u>115,766</u> |
| | <u>\$ 16,285,415</u> | <u>15,909,976</u> | <u>33,391,274</u> | <u>28,797,926</u> |

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

(24) Employees' compensation and remuneration of directors

The Company accrued employees' compensation and remuneration of directors at the rates of 8% to 19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors were as follows:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---------------------------|------------------------------------------------|-----------------------|----------------------------------------------|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Employees' compensation | <u>\$ 264,061</u> | <u>309,370</u> | <u>555,913</u> | <u>523,735</u> |
| Remuneration of directors | <u>\$ 13,203</u> | <u>23,564</u> | <u>27,796</u> | <u>45,000</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

The employees' compensation and remuneration of directors for the years ended December 31, 2021, which have been approved by the Company's Board of Directors on March 4, 2022 was as follows:

| | 2021 | |
|---------------------------|--------------|--------------|
| | Cash | Share |
| Employees' compensation | \$ 1,100,000 | - |
| Remuneration of directors | 50,000 | - |

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2021 and 2020.

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

(25) Non-operating income and expenses

A. Other income

| | For the three months ended | | For the six months ended | |
|-------------------------------------------|-----------------------------------|---------------|---------------------------------|---------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Dividend income | \$ 61,472 | 33,035 | 72,501 | 36,059 |
| Rent income | 5,380 | 5,187 | 11,005 | 11,478 |
| Gain on a bargain purchase (note 6(9)) | - | - | 16,289 | - |
| Others | 7,795 | 9,724 | 13,028 | 19,478 |
| | \$ 74,647 | 47,946 | 112,823 | 67,015 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

B. Other gains and losses

| | For the three months ended June 30, | | For the six months ended June 30, | |
|-----------------------------------------------------------------------------------------|------------------------------------------------|-----------------------|----------------------------------------------|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Gains on disposal of property, plant and equipment | \$ - | - | 23 | - |
| Gain on disposal of investments accounted for using the equity method (note 6(9)) | - | - | 27,689 | - |
| Net foreign exchange gains (losses) | 292,780 | (57,651) | 523,969 | (86,681) |
| Gains (Losses) on financial assets at fair value through profit or loss | (120,894) | 181,506 | (249,721) | 307,453 |
| Others | (55) | 5 | 135 | 5 |
| | <u>\$ 171,831</u> | <u>123,860</u> | <u>302,095</u> | <u>220,777</u> |

C. Finance costs

| | For the three months ended June 30, | | For the six months ended June 30, | |
|-------------------------------|------------------------------------------------|---------------------|----------------------------------------------|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Interest on bank loans | \$ 1,223 | 6,068 | 3,432 | 10,528 |
| Interest on lease liabilities | 252 | 191 | 605 | 405 |
| Interest on convertible bond | 7,267 | - | 14,434 | - |
| Other interest expense | - | - | 21 | - |
| | <u>\$ 8,742</u> | <u>6,259</u> | <u>18,492</u> | <u>10,933</u> |

(26) Financial instruments

A. Categories of financial instruments

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------------------------------------|-----------------------------|------------------------------|--------------------------|
| Financial assets | | | |
| Financial assets at FVTPL (current and non-current) | \$ 1,388,586 | 1,658,523 | 1,706,328 |
| Financial assets at amortized cost (Note 1) | 25,407,769 | 29,488,182 | 28,301,510 |
| Financial assets at FVTOCI | 638,034 | 634,757 | 504,497 |
| | <u>\$ 27,434,389</u> | <u>31,781,462</u> | <u>30,512,335</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Financial liabilities | | | |
| Financial liabilities at amortized cost (Note 2) | \$ 21,841,793 | 22,909,645 | 19,635,941 |

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, accounts receivable (including related parties), other receivables and refundable deposits.

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

B. Financial risk management objectives and policies

The Group primarily manages its exposure to foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The Group's plans for material treasury activities must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties and reviewed in accordance with procedures required by relevant regulations or internal controls.

C. Market risk

The Group's activities were exposed 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. The Group continues to evaluate future exchange rate movements, and the exposure to foreign currency risk of foreign currency net assets is still within the controllable range.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(i) Exposure to foreign currency risk

The Group's financial assets and liabilities exposed to significant foreign currency risk were as follows:

| | June 30, 2022 | | | December 31, 2021 | | | June 30, 2021 | | |
|------------------------------|---------------------|------------------|------------|---------------------|------------------|------------|---------------------|------------------|------------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| <u>Financial assets</u> | | | | | | | | | |
| <u>Monetary items</u> | | | | | | | | | |
| USD | 471,415 | 29.720 | 14,010,466 | 482,969 | 27.680 | 13,368,578 | 403,536 | 27.860 | 11,242,513 |
| <u>Non-Monetary items</u> | | | | | | | | | |
| CNY | 810,860 | 4.439 | 3,599,407 | 815,300 | 4.340 | 3,538,401 | 708,503 | 4.309 | 3,052,941 |
| <u>Financial liabilities</u> | | | | | | | | | |
| <u>Monetary items</u> | | | | | | | | | |
| USD | 247,825 | 29.720 | 7,365,346 | 283,113 | 27.680 | 7,836,557 | 251,383 | 27.860 | 7,003,526 |

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk primarily arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable (including related parties), short-term borrowings, and accounts payable (including related parties), that are denominated in USD. A weakening (strengthening) of 5% of the NTD against the USD as of June 30, 2022, December 31, 2021, and June 30, 2021, would have increased or decreased the net profit before income tax for the six months ended June 30, 2022 and 2021 by \$332,256 thousand and \$211,949 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

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. The details of the net foreign currency exchange gains (losses) (including realized and unrealized) were as follows:

| For the three months ended June 30, | | For the six months ended June 30, | |
|----------------------------------------|----------|--------------------------------------|----------|
| 2022 | 2021 | 2022 | 2021 |
| \$ 292,780 | (57,651) | 523,969 | (86,681) |

(b) Interest rate risk

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date.

If interest rates had been 0.25% basis point higher and all other variables were held constant, the Group's net profit before income tax for the six months ended June 30, 2022 and 2021 would have increased by \$11,492 thousand and \$14,536 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents, short-term and long-term borrowings.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(c) Other price risk

The Group was exposed to equity price risks through its investments in foreign 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 date.

If equity prices had been 10% higher or lower, net profit before income tax for the six months ended June 30, 2022 and 2021 would have increased or decreased by \$138,859 thousand and \$170,633 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL.

If equity prices had been 10% higher or lower, the other comprehensive income before income tax for the six months ended June 30, 2022 and 2021 would have increased or decreased by \$63,803 thousand and \$50,450 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

D. Concentration of credit risk

(a) Accounts receivable

The major customers of the Group are in the electronics industry and the Group usually grants credit limits to customers in accordance with credit policy, therefore, the credit risk of the Group is mainly affected by the electronics industry. However, the Group mostly sells products to customers with good reputation and continuously monitors the financial situation of customers to monitor the significant loss from credit risk. As of June 30, 2022, December 31, 2021, and June 30, 2021, 32%, 40% and 26%, respectively, of accounts receivable (including related parties) were from top five customers, so there was no significant concentration of credit risk. In addition, the Group periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

(b) Cash and cash equivalents

The Group's cash and cash equivalents are deposited with different financial institutions. The Group controls the credit risk exposure to each financial institution and believes that the Group's cash and cash equivalents do not pose a risk of a significant concentration of credit risk.

(c) Receivables and debt securities

Please refer to note 6(5) for details on the credit risk exposure of accounts receivable. Please refer to note 6(3) for financial assets at amortized cost including segregated foreign exchange deposit account for Offshore Funds and pledged time deposits. Please refer to notes 6(2) and (4) for details on financial assets at fair value through profit and loss and other comprehensive income including listed stocks, unlisted stocks, open-end funds, and private equity funds.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

The financial assets mentioned above were with lower credit risk, so a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date.

E. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | <u>Carrying amount</u> | <u>Cash flow of contract</u> | <u>Within 1 year</u> | <u>1-5 years</u> | <u>Over 5 years</u> |
|---------------------------------------------|-----------------------------|------------------------------|----------------------------|---------------------------|------------------------|
| June 30, 2022 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing liabilities | \$ 18,204,218 | (18,204,218) | (16,415,937) | (1,788,281) | - |
| Lease liabilities (current and non-current) | 134,142 | (135,698) | (42,402) | (93,296) | - |
| Bonds payable | 3,427,289 | (3,500,000) | - | (3,500,000) | - |
| Floating interest rate liabilities | 180,286 | (190,024) | (34,026) | (136,144) | (19,854) |
| Fixed interest rate liabilities | <u>30,000</u> | <u>(30,060)</u> | <u>(30,060)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 21,975,935</u> | <u>(22,060,000)</u> | <u>(16,522,425)</u> | <u>(5,517,721)</u> | <u>(19,854)</u> |
| December 31, 2021 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing liabilities | \$ 18,861,938 | (18,861,938) | (18,857,829) | (4,109) | - |
| Lease liabilities (current and non-current) | 40,030 | (40,214) | (24,402) | (15,812) | - |
| Bonds payable | 3,412,855 | (3,500,000) | - | (3,500,000) | - |
| Floating interest rate liabilities | 195,636 | (204,820) | (33,669) | (134,676) | (36,475) |
| Fixed interest rate liabilities | <u>439,216</u> | <u>(439,799)</u> | <u>(439,799)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 22,949,675</u> | <u>(23,046,771)</u> | <u>(19,355,699)</u> | <u>(3,654,597)</u> | <u>(36,475)</u> |
| June 30, 2021 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing liabilities | \$ 16,005,089 | (16,005,089) | (16,001,222) | (3,867) | - |
| Lease liabilities (current and non-current) | 32,233 | (32,841) | (19,885) | (12,956) | - |
| Floating interest rate liabilities | 354,516 | (365,442) | (177,457) | (134,676) | (53,309) |
| Fixed interest rate liabilities | <u>3,276,336</u> | <u>(3,285,068)</u> | <u>(3,285,068)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 19,668,174</u> | <u>(19,688,440)</u> | <u>(19,483,632)</u> | <u>(151,499)</u> | <u>(53,309)</u> |

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

F. Fair value of financial instruments

(a) Fair value measurements recognized in the consolidated balance sheets

Fair value measurements are grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

- Level 2 fair value measurements are those derived from 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
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy

The following table presents the Group's financial assets and liabilities measured at fair value on a recurring basis:

| | June 30, 2022 | | | |
|-------------------------------------------------------------------|--------------------------|----------------|----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | |
| Domestic listed stocks | \$ 513,899 | - | - | 513,899 |
| Domestic unlisted stocks | - | - | 196,158 | 196,158 |
| Foreign unlisted stocks | - | - | 120,115 | 120,115 |
| Domestic private equity funds | - | - | 83,714 | 83,714 |
| Beneficiary certificates—open-end funds | 474,700 | - | - | 474,700 |
| | \$ 988,599 | - | 399,987 | 1,388,586 |
| Financial assets at fair value through other comprehensive income | | | | |
| Domestic unlisted stocks | \$ - | - | 298,242 | 298,242 |
| Foreign unlisted stocks | - | - | 339,792 | 339,792 |
| | \$ - | - | 638,034 | 638,034 |
| | | | | |
| | December 31, 2021 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | |
| Domestic listed stocks | \$ 728,076 | - | - | 728,076 |
| Domestic unlisted stocks | - | - | 302,867 | 302,867 |
| Foreign unlisted stocks | - | - | 108,793 | 108,793 |
| Domestic private equity funds | - | - | 39,909 | 39,909 |
| Beneficiary certificates—open-end funds | 473,978 | - | - | 473,978 |
| Derivative instruments—convertible bonds | - | - | 4,900 | 4,900 |
| | \$ 1,202,054 | - | 456,469 | 1,658,523 |
| Financial assets at fair value through other comprehensive income | | | | |
| Domestic unlisted stocks | \$ - | - | 294,433 | 294,433 |
| Foreign unlisted stocks | - | - | 340,324 | 340,324 |
| | \$ - | - | 634,757 | 634,757 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| | June 30, 2021 | | | |
|-------------------------------------------------------------------|----------------------|----------------|----------------|------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Financial assets at fair value through profit or loss | | | | |
| Domestic listed stocks | \$ 716,726 | - | - | 716,726 |
| Domestic unlisted stocks | - | - | 383,480 | 383,480 |
| Foreign unlisted stocks | - | - | 92,241 | 92,241 |
| Domestic private equity funds | - | - | 40,373 | 40,373 |
| Beneficiary certificates— open-end funds | 473,508 | - | - | 473,508 |
| | <u>\$ 1,190,234</u> | <u>-</u> | <u>516,094</u> | <u>1,706,328</u> |
| Financial assets at fair value through other comprehensive income | | | | |
| Domestic unlisted stocks | \$ - | - | 228,887 | 228,887 |
| Foreign unlisted stocks | - | - | 275,610 | 275,610 |
| | <u>\$ -</u> | <u>-</u> | <u>504,497</u> | <u>504,497</u> |

There were no transfers between Levels 1 and 2 for the six months ended June 30, 2022 and 2021.

The reconciliations of Level 3 fair value measurements of financial instruments were as follows:

| | <u>Financial assets at fair value through profit or loss</u> | | | <u>Financial assets at fair value through other comprehensive income</u> | <u>Total</u> |
|----------------------------------------------|--------------------------------------------------------------|--------------------------------------------------|---------------------------|--------------------------------------------------------------------------|------------------|
| | <u>Private equity funds</u> | <u>Derivative instruments— convertible bonds</u> | <u>Equity instruments</u> | <u>Equity instruments</u> | |
| January 1, 2022 | \$ 39,909 | 4,900 | 411,660 | 634,757 | 1,091,226 |
| Recognized in profit or loss | 43,805 | (4,900) | (88,112) | - | (49,207) |
| Recognized in other comprehensive income | - | - | - | (11,713) | (11,713) |
| Additions for the period | - | - | - | 14,990 | 14,990 |
| Disposal and proceeds from capital reduction | - | - | (7,275) | - | (7,275) |
| June 30, 2022 | <u>\$ 83,714</u> | <u>-</u> | <u>316,273</u> | <u>638,034</u> | <u>1,038,021</u> |
| January 1, 2021 | \$ 42,033 | - | 395,203 | 360,304 | 797,540 |
| Recognized in profit or loss | (1,660) | - | 124,504 | - | 122,844 |
| Recognized in other comprehensive income | - | - | - | 59,188 | 59,188 |
| Additions for the period | - | - | 3,338 | 85,005 | 88,343 |
| Disposal and proceeds from capital reduction | - | - | (15,300) | - | (15,300) |
| Transfers out from level 3 | - | - | (32,024) | - | (32,024) |
| June 30, 2021 | <u>\$ 40,373</u> | <u>-</u> | <u>475,721</u> | <u>504,497</u> | <u>1,020,591</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(c) Quantified information on Level 3 used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value mainly include financial assets at fair value through profit or loss— equity investments, derivative financial instruments, private equity funds, and financial assets at fair value through other comprehensive income— equity investments. If the measurement of the fair value requires the use of observable inputs which cannot be objectively observed, the Group will evaluate the most relevant market data carefully for the evaluation item.

Quantified information of significant unobservable inputs was as follows:

| <u>Item</u> | <u>Valuation technique</u> | <u>Significant unobservable inputs</u> | <u>Inter-relationship between significant unobservable inputs and fair value measurement</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income— equity investments without an active market | Market approach | <ul style="list-style-type: none"> · Discount for lack of marketability (June 30, 2022: 13.21%~30%, December 31, 2021: 15%~28.97% and June 30, 2021: 15%~31.58%) | <ul style="list-style-type: none"> · The higher the discount for lack of marketability, the lower the fair value |
| Financial assets at fair value through other comprehensive income— equity investments without an active market | Income approach | <ul style="list-style-type: none"> · Sustainable revenue growth rate (June 30, 2022: 2.5%, December 31, 2021: 2.5% and June 30, 2021: 2.88%) · Weighted-average cost of capital (June 30, 2022: 7.02%~9.59%, December 31, 2021: 7.02%~9.59% and June 30, 2021: 12.63%~14.87%) · Discount for lack of marketability (June 30, 2022, December 31, 2021 and June 30, 2021: 15%) · Discount for non-controlling interest (June 30, 2022, December 31, 2021 and June 30, 2021: 15%) | <ul style="list-style-type: none"> · The higher the sustainable revenue growth rate, the higher the fair value · The higher the weighted-average cost of capital, the lower the fair value · The higher the discount for lack of marketability, the lower the fair value · The higher the discount for non-controlling interest, the lower the fair value |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| <u>Item</u> | <u>Valuation technique</u> | <u>Significant unobservable inputs</u> | <u>Inter-relationship between significant unobservable inputs and fair value measurement</u> |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Financial assets at fair value through profit or loss — equity investments without an active market and private equity funds | Asset-based approach | <ul style="list-style-type: none"> · Net Asset Value · Discount for lack of marketability (June 30, 2022, December 31, 2021 and June 30, 2021: 10%) · Discount for non-controlling interest (June 30, 2022, December 31, 2021 and June 30, 2021: 10%) | No applicable |

The fair values of derivatives instruments — convertible bonds is estimated by the binary tree convertible bond evaluation model, and the significant unobservable input value used is the stock price volatility. The stock price volatility adopted on June 30, 2022 and December 31, 2021, was 38.36% and 43.39%, respectively.

(27) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2021. Also, management believes that there were no significant changes in the Group’s capital management information as disclosed for the year ended December 31, 2021. Please refer to Note 6(27) of the consolidated financial statements for the year ended December 31, 2021 for related information.

(28) Investing and financing activities not affecting current cash flow

A. For leased right-of-use assets, please refer to note 6(11).

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

B. Reconciliations of liabilities arising from financing activities were as follows:

| | January 1, 2022 | Cash flows | Foreign exchange movement and others | June 30, 2022 |
|-------------------------------------------------------|----------------------------|-----------------------|---------------------------------------------------------|--------------------------|
| Short-term borrowings | \$ 439,216 | (412,995) | 3,779 | 30,000 |
| Bonds payable | 3,412,855 | - | 14,434 | 3,427,289 |
| Long-term borrowings (including current portion) | 195,636 | (15,350) | - | 180,286 |
| Lease liabilities (current and non-current) | 40,030 | (24,421) | 118,533 (Note) | 134,142 |
| Guarantee deposits received (current and non-current) | 4,109 | 2,488,752 | 187,020 | 2,679,881 |
| Total liabilities from financing activities | <u>\$ 4,091,846</u> | <u>2,035,986</u> | <u>323,766</u> | <u>6,451,598</u> |

Note: The Group has leased offices in Taipei for operation needs since the first quarter of 2022, therefore, lease liabilities of the Group increased \$100,116 thousand.

| | January 1, 2021 | Cash flows | Foreign exchange movement and others | June 30, 2021 |
|--------------------------------------------------|----------------------------|-----------------------|---------------------------------------------------------|--------------------------|
| Short-term borrowings | \$ 1,480,480 | 1,974,008 | (34,572) | 3,419,916 |
| Long-term borrowings (including current portion) | 226,122 | (15,186) | - | 210,936 |
| Lease liabilities (current and non-current) | 32,632 | (10,074) | 9,675 | 32,233 |
| Guarantee deposits received | 4,986 | (1,119) | - | 3,867 |
| Total liabilities from financing activities | <u>\$ 1,744,220</u> | <u>1,947,629</u> | <u>(24,897)</u> | <u>3,666,952</u> |

7. Related-party transactions

(1) Names and relationship with related parties

The followings are subsidiaries and related parties that have had transactions with the Group during the periods covered in the consolidated financial statements:

| <u>Name of related party</u> | <u>Relationship with the Group</u> |
|-----------------------------------------------------------|------------------------------------|
| Microtops Design Corporation | Associate |
| Hosin Global Electronics Co., Ltd. (SZ) (Hosin Global SZ) | Associate |
| Hosin Global Electronics Co., Ltd. (HK) | Hosin Global SZ's subsidiary |
| SiliTai Electronics Co., Limited | Hosin Global SZ's subsidiary |
| Hefei Core Storage Electronic Limited | Hosin Global SZ's subsidiary |
| Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng) | Associate |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| <u>Name of related party</u> | <u>Relationship with the Group</u> |
|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Hefei Datang Storage Technology Co., Ltd. | Hefei Xinpeng's subsidiary |
| ProGrade Digital, Inc. | Associate |
| Nextorage Corporation | Since January 1, 2022, it was no longer an associate and became a subsidiary of the Company |
| Kioxia Corporation (KIC) | The Company's director |
| Kioxia Taiwan Corporation | KIC's subsidiary |
| Kioxia Asia, Limited | KIC's subsidiary |
| Solid State Storage Technology Corporation (including Hsinchu Science Park Branch) | KIC's subsidiary |
| Toshiba International Procurement HongKong, Ltd. | KIC's associate |
| Orient Semiconductor Electronics Ltd. | The Company is its director |
| Apacer Technology Inc. | The Company is its director |
| LIU, TIAN-PAI | Other related party |

(2) Significant transactions with related parties

A. Operating revenues

The amounts of significant sales by the Group to related parties were as follows:

| <u>Related Party Category / Name</u> | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|------------------------------------------|------------------------------------------------|------------------|----------------------------------------------|------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | Associates | \$ 1,848,025 | 1,122,761 | 3,934,912 |
| Other related parties | <u>676,604</u> | <u>716,697</u> | <u>1,716,682</u> | <u>1,415,255</u> |
| | <u>\$ 2,524,629</u> | <u>1,839,458</u> | <u>5,651,594</u> | <u>3,391,234</u> |

The credit terms to related parties were ranged from 7 days after delivery to EOM 60 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price and credit terms of the Group for related parties and that for the third parties.

B. Purchase of goods and processing costs

(a) Purchase of goods

| <u>Related Party Category / Name</u> | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|--------------------------------------------------|------------------------------------------------|------------------|----------------------------------------------|------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Associates | \$ - | 42,571 | - | 162,164 |
| Other related parties – Kioxia Taiwan Company | <u>3,473,221</u> | <u>3,959,342</u> | <u>7,926,502</u> | <u>7,058,445</u> |
| | <u>\$ 3,473,221</u> | <u>4,001,913</u> | <u>7,926,502</u> | <u>7,220,609</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(b) Processing costs

| <u>Related Party Category / Name</u> | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|------------------------------------------|------------------------------------------------|----------------|----------------------------------------------|------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Other related parties | <u>\$ 682,619</u> | <u>620,640</u> | <u>1,287,945</u> | <u>1,110,032</u> |

The payment terms to related parties were EOM 30 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the purchase price and payment terms of the Group from related parties and that from the third parties.

C. Receivable from related parties

| <u>Related Party Category / Name</u> | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|---------------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Associates – Hosin Global Electronics Co., Ltd. (HK) | \$ 1,017,110 | 1,614,392 | 496,823 |
| Associates | 563,323 | 553,795 | 457,010 |
| Other related parties | <u>517,805</u> | <u>652,856</u> | <u>589,721</u> |
| | 2,098,238 | 2,821,043 | 1,543,554 |
| Less: Loss allowance | <u>(4,827)</u> | <u>(7,519)</u> | <u>-</u> |
| | <u>\$ 2,093,411</u> | <u>2,813,524</u> | <u>1,543,554</u> |

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

| <u>Related Party Category / Name</u> | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|--------------------------------------------------|--------------------------|------------------------------|--------------------------|
| Associates | \$ - | - | 34,876 |
| Other related parties – Kioxia Taiwan Company | 2,414,074 | 2,764,162 | 1,373,105 |
| Other related parties | <u>270,510</u> | <u>436,145</u> | <u>292,504</u> |
| | <u>\$ 2,684,584</u> | <u>3,200,307</u> | <u>1,700,485</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

E. Other transactions

| <u>Account Name</u> | <u>Related Party Category / Name</u> | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|-------------------------|----------------------------------------------|------------------------------------------------|---------------|----------------------------------------------|----------------|
| | | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Operating costs | Other related parties | \$ <u>1,344</u> | <u>214</u> | <u>2,709</u> | <u>766</u> |
| Operating expenses | Associates | \$ 65,672 | 65,193 | 129,738 | 130,426 |
| | Other related parties | <u>1,629</u> | <u>5,866</u> | <u>4,720</u> | <u>6,993</u> |
| | | <u>\$ 67,301</u> | <u>71,059</u> | <u>134,458</u> | <u>137,419</u> |
| Non-operating incomes | Associates | \$ 231 | 248 | 551 | 737 |
| | Other related parties (note) | <u>30,547</u> | <u>100</u> | <u>30,647</u> | <u>200</u> |
| | | <u>\$ 30,778</u> | <u>348</u> | <u>31,198</u> | <u>937</u> |

Note: The related parties distributed \$29,045 thousand cash dividend to the Group for the six months ended June 30, 2022. As of June 30, 2022, the aforementioned dividend had been received.

As of June 30, 2022, December 31, 2021, and June 30, 2021, the receivables arising from abovementioned transactions were \$81 thousand, \$26,512 thousand and \$87 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$55,450 thousand, \$54,392 thousand and \$57,449 thousand, respectively (recognized as other current liabilities).

On January 21, 2022, the Company's Board of Directors resolved to purchase the land from the related party, LIU, TIAN-PAI, for the Company to expand operation in the future. The total amount without VAT of the purchase was \$39,500 thousand.

The Group leased the office to related parties with lease terms and prices determined based on mutual agreements. The payment term for rental is 30 days after the end of the month, with the related income being classified under non-operating income. The related party leased the land to the Group with lease terms and prices determined based on mutual agreements. The payment term for rental is T/T in advance, with the related expense being classified under operating expenses.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(3) Key management personnel compensation

Key management personnel compensation comprised:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|------------------------------|----------------------------------------|----------------|--------------------------------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Short-term employee benefits | \$ 156,768 | 125,036 | 294,000 | 215,632 |
| Post-employment benefits | 670 | 541 | 1,121 | 1,060 |
| Share-based payments | 14,534 | 21,585 | 28,768 | 43,278 |
| | <u>\$ 171,972</u> | <u>147,162</u> | <u>323,889</u> | <u>259,970</u> |

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

Please refer to note 6(21) for further explanations related to share-based payment.

8. Pledged assets

The carrying amounts of pledged assets were as follows:

| Pledged assets | Object | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|----------------------|------------------|
| Property, plant and equipment | As collateral for loans and finance facilities | \$ 524,300 | 530,694 | 537,088 |
| Pledged time deposits (recognized as financial assets at amortized cost – current) | As collateral for the tariff of imported raw materials | 40,489 | 40,459 | 40,449 |
| | | <u>\$ 564,789</u> | <u>571,153</u> | <u>577,537</u> |

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------|---------------------|----------------------|------------------|
| Unused letters of credit | <u>\$ 1,160,000</u> | <u>1,160,000</u> | <u>1,160,000</u> |

B. The unpaid amounts of construction, plant and equipment that have been signed or ordered were as follows:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--|------------------|----------------------|------------------|
| | <u>\$ 41,450</u> | <u>373,455</u> | <u>1,097,412</u> |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(2) Purchase commitment

The Company entered into a long-term purchase agreement of material with a supplier. The relative purchase quantity and price of wafers are specified in the agreement. According to the agreement, the Company has to pay partial guarantee deposit before the appointment date. As of June 30, 2022, the Company has paid USD18,480 thousand of guarantee deposit (recognized as other non-current assets).

(3) Long-term supply agreement

The Company entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of USD90,000 thousand as agreed. The Company was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. The guarantee deposits received were classified as current liabilities of \$891,600 thousand (recognized as other current liabilities) and non-current liabilities of \$1,783,200 thousand (recognized as guarantee deposits received) based on the expected repayment period.

10. Losses due to major disasters: None

11. Subsequent events

The resolutions approved by the Company's Board of Directors on July 15, 2022, were as follows:

- (1) The Company plans to repurchase 10,000 thousand shares of its issued shares of common shares to its employees at a price not to exceed \$325 per share for the period from July 18 to September 16, 2022, in accordance with the Securities and Exchange Act.
- (2) The proposed issuance of employee share options for 2022 amounted to 6,000 thousand units.

12. Other

- (1) A summary of current-period employee benefits, depreciation, and amortization, by function, was as follows:

| By item | By function | For the three months ended June 30 | | | | | |
|----------------------------|-------------|------------------------------------|----------------------------------|-----------|------------------------------|----------------------------------|-----------|
| | | 2022 | | | 2021 | | |
| | | Classified as operating cost | Classified as operating expenses | Total | Classified as operating cost | Classified as operating expenses | Total |
| Employee benefits | | | | | | | |
| Salary | | 250,860 | 2,217,446 | 2,468,306 | 140,200 | 1,926,821 | 2,067,021 |
| Labor and health insurance | | 21,445 | 81,587 | 103,032 | 13,119 | 56,652 | 69,771 |
| Pension | | 9,333 | 45,147 | 54,480 | 5,626 | 31,870 | 37,496 |
| Others | | 11,941 | 39,747 | 51,688 | 10,660 | 31,789 | 42,449 |
| Depreciation | | 51,713 | 110,399 | 162,112 | 34,634 | 79,139 | 113,773 |
| Amortization | | 909 | 85,857 | 86,766 | 141 | 64,881 | 65,022 |

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

| By item | By function | For the six months ended June 30 | | | | | |
|----------------------------|-------------|----------------------------------|----------------------------------|-----------|------------------------------|----------------------------------|-----------|
| | | 2022 | | | 2021 | | |
| | | Classified as operating cost | Classified as operating expenses | Total | Classified as operating cost | Classified as operating expenses | Total |
| Employee benefits | | | | | | | |
| Salary | | 469,198 | 4,168,213 | 4,637,411 | 272,611 | 3,326,837 | 3,599,448 |
| Labor and health insurance | | 42,938 | 185,852 | 228,790 | 27,528 | 128,605 | 156,133 |
| Pension | | 17,483 | 87,038 | 104,521 | 11,090 | 61,370 | 72,460 |
| Others | | 22,926 | 77,245 | 100,171 | 20,061 | 59,142 | 79,203 |
| Depreciation | | 93,422 | 214,298 | 307,720 | 67,877 | 153,073 | 220,950 |
| Amortization | | 1,050 | 170,457 | 171,507 | 282 | 121,845 | 122,127 |

- (2) The Company was served two complaints from Taiwan Hsinchu District Court on November 8, 2019 and December 13, 2019, that the Securities and Futures Investors Protection Center (“SFIPC”) filed the following two civil actions:

- A. To ask to remove Mr. K.S. Pua from the Company’s Board Director Position (“Removal Action”);
- B. To claim monetary damage amounting to \$697,389 thousand against the Company, Mr. K.S. Pua, and other co-defendants (“Claim Action”).

These two civil actions were derivative litigations from the criminal litigation associated with the Company’s financial case occurred on August 05, 2016. The Company has engaged attorneys to answer and ask the court to dismiss SFIPC’s allegations. Of which, Taiwan Hsinchu District Court rendered judgment on February 18, 2022, to dismiss the Removal Action. However, SFIPC disagreed with the judgment and filed a petition for appeal to the Taiwan High Court. Nevertheless, since Mr. K.S. Pua had resigned from the Company’s chairman and Board Director Position on November 18, 2021, the Removal Action’s future development has no influence on the Company. With regard to the Claim Action, even though its future development and possible consequence could not be assessed by the Company, at current stage it has no significant influence on the Company’s finance and operations.

13. Addition disclosures

- (1) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- A. Loans to other parties: None
- B. Guarantees and endorsements for other parties: None
- C. Securities held as of June 30, 2022 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 1.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
 - E. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Please refer to Table 2.
 - F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
 - G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 3.
 - H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 4.
 - I. Trading in derivative instruments: Please refer to Notes 6(2).
 - J. Business relationships and significant intercompany transactions: Please refer to Table 5.
- (2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 6.
- (3) Information on investment in Mainland China:
- A. The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 7.
 - B. Limitation on investment in Mainland China: Please refer to Table 7.
 - C. Significant transactions:

For the six months ended June 30, 2022, the significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.
- (4) Major shareholders:

(in units of shares)

| Shareholder's Name | Shareholding | Shares | Percentage |
|--------------------------------------------------------------|--------------|------------|------------|
| Trust Investment Account of KIOXIA Corporation by First Bank | | 19,821,112 | 10.05 % |

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of common shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

Note 2: If the aforementioned data contains shares which are held in trust by the shareholders, the data is disclosed as a separate account of client which was set by the trustee. As for the shareholder who reports share equity as an insider whose shareholding ratio is greater than 10%, in accordance with the Securities and Exchange Act, the shareholding ratio includes the self-owned shares and shares held in trust, and at the same time, the shareholder has the power to decide how to allocate the trust assets. For the information on the reported share equity of insider, please refer to the Market Observation Post System.

14. 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.

Phison Electronics Corp. and Subsidiaries
Securities held as of June 30, 2022 (excluding investment in subsidiaries, associates and joint ventures)
June 30, 2022

Table 1

(Shares in Thousands /Amounts in Thousands)

| Name of Holder | Type and Name of Marketable Securities | Relationship with Company | Account Title | Ending Balance | | | | Note |
|----------------|--------------------------------------------------|---------------------------|---------------------------------------------------------------------|----------------|----------------|-----------------------------|------------|------|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value | |
| The Company | <u>Beneficiary certificates – open-end funds</u> | | | | | | | |
| | Mega Diamond Money Market Fund | - | Financial assets at fair value through profit or loss – current | 16,326 | 207,278 | - | 207,278 | |
| | FSITC Taiwan Money Market Fund | - | Same as above | 10,134 | <u>157,038</u> | - | 157,038 | |
| | | | | | <u>364,316</u> | | | |
| | <u>Common shares</u> | | | | | | | |
| | Apacer Technology Inc. | - | Same as above | 10,050 | 371,850 | 9.87 | 371,850 | |
| | Orient Semiconductor Electronics, Ltd. | - | Same as above | 7,336 | 117,749 | 0.89 | 117,749 | |
| | Acer Synergy Tech Corp. | - | Same as above | 600 | <u>24,300</u> | 3.00 | 24,300 | |
| | | | | | <u>513,899</u> | | | |
| | AppWorks Fund II Co., Ltd. | - | Financial assets at fair value through profit or loss – non-current | 5,355 | 132,437 | 11.11 | 132,437 | |
| | Taishan Buffalo Investment Co., Ltd. | - | Same as above | 46,300 | 46,852 | 1.08 | 46,852 | |
| | Innorich Venture Capital Corp. | - | Same as above | 3,000 | 16,869 | 5.61 | 16,869 | |
| | JAFCO ASIA TECHNOLOGY FUND VI L.P. | - | Same as above | 1,000 | <u>15,394</u> | 0.67 | 15,394 | |
| | | | | | <u>211,552</u> | | | |

| Name of Holder | Type and Name of Marketable Securities | Relationship with Company | Account Title | Ending Balance | | | | Note | |
|-------------------------------------|--------------------------------------------|-----------------------------|---------------------------------------------------------------------------------|----------------|----------------|-----------------------------|------------|------|--|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value | | |
| The Company | CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A. | - | Financial assets at fair value through other comprehensive income – non-current | 11,966 | 267,507 | 17.16 | 267,507 | | |
| | AppWorks Fund III Co., Ltd. | - | Same as above | 10,000 | 86,952 | 2.92 | 86,952 | | |
| | UD INFO Corp. | - | Same as above | 1,252 | 92,669 | 17.40 | 92,669 | | |
| | Adam Elements International Co., Ltd. | - | Same as above | 1,710 | 24,983 | 19.00 | 24,983 | | |
| | Gomore Inc. | - | Same as above | 16,925 | 9,286 | 1.86 | 9,286 | | |
| | H3 Platform, Inc. | - | Same as above | 18,400 | 5,106 | 12.14 | 5,106 | | |
| | Gospal Ltd. | - | Same as above | 811,857 | 3,893 | 3.19 | 3,893 | | |
| | Aptos Technology Inc. | - | Same as above | 212 | - | 0.35 | - | | |
| | THLight Co., Ltd. | - | Same as above | 6,388 | - | 12.54 | - | | |
| | GeoThings, Inc. | - | Same as above | 150 | - | 3.13 | - | | |
| | Ironyun Incorporated | - | Same as above | 2,500 | - | 3.76 | - | | |
| | | | | | <u>490,396</u> | | | | |
| | | <u>Private equity funds</u> | | | | | | | |
| | Fuh Hwa Smart Energy Fund | - | Financial assets at fair value through profit or loss – non-current | 6,000 | <u>83,714</u> | 3.81 | 83,714 | | |
| Lian Xu Dong Investment Corporation | <u>Common shares</u> | | | | | | | | |
| | Translink Capital Partners III L.P | - | Financial assets at fair value through profit or loss – non-current | 1,500 | 60,377 | 1.18 | 60,377 | | |
| | Translink Capital Partners IV L.P | - | Same as above | 790 | <u>44,344</u> | 0.59 | 44,344 | | |
| | | | | | <u>104,721</u> | | | | |

| Name of Holder | Type and Name of Marketable Securities | Relationship with Company | Account Title | Ending Balance | | | | Note |
|-------------------------------------|-----------------------------------------------------------|---------------------------|---------------------------------------------------------------------------------|----------------|----------------|-----------------------------|------------|------|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value | |
| Lian Xu Dong Investment Corporation | Liquid, Inc. (preference shares) | - | Financial assets at fair value through other comprehensive income – non-current | 2,111 | 45,280 | 4.76 | 45,280 | |
| | Translink Capital Partners V, L.P. | - | Same as above | 300 | 8,720 | 2.59 | 8,720 | |
| | Taiwania Capital Buffalo Fund V, LP. | - | Same as above | 25,000 | 19,664 | 3.19 | 19,664 | |
| | Cathy Private Equity Smart Technology Limited Partnership | - | Same as above | 30,000 | 30,000 | 8.20 | 30,000 | |
| | New Future III Limited Partnership | - | Same as above | 21,236 | 21,237 | 5.12 | 21,237 | |
| | Omni Media International Incorporation | - | Same as above | 1,714 | 11,640 | 2.60 | 11,640 | |
| | UMBO CV INC. (preference shares) | - | Same as above | 1,626 | - | 2.34 | - | |
| | | | | | <u>136,541</u> | | | |
| Emtops Electronics Corporation | My Digital Discount, Inc. | - | Financial assets at fair value through other comprehensive income – non-current | - | - | 19.00 | - | |
| Phisontech Electronics Taiwan Corp. | <u>Beneficiary certificates – open-end funds</u> | | | | | | | |
| | FSITC Money Market Fund | - | Financial assets at fair value through profit or loss – current | 167 | 30,117 | - | 30,117 | |
| | Franklin Templeton Sinoam Money Market Fund | - | Same as above | 1,917 | 20,070 | - | 20,070 | |
| | FSITC Taiwan Money Market Fund | - | Same as above | 1,295 | 20,071 | - | 20,071 | |
| | Mega Diamond Money Market Fund | - | Same as above | 1,580 | 20,063 | - | 20,063 | |
| | Capital Money Market Fund | - | Same as above | 1,229 | <u>20,063</u> | - | 20,063 | |
| | | | | | <u>110,384</u> | | | |

| Name of Holder | Type and Name of Marketable Securities | Relationship with Company | Account Title | Ending Balance | | | | Note |
|--------------------------------------|-------------------------------------------------------------|---------------------------|---------------------------------------------------------------------------------|----------------|----------------|-----------------------------|------------|------|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value | |
| Super Storage Technology Corporation | <u>Common shares</u> Power Research Technology Corp. | - | Financial assets at fair value through other comprehensive income — non-current | 833 | <u>11,097</u> | 13.88 | 11,097 | |

Phison Electronics Corp. and Subsidiaries

Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital

For the six months ended June 30, 2022

Table 2

(Amounts in Thousands)

| Company Name | Types of Property | Transaction Date | Transaction Amount | Status of Payment | Counter-Party | Nature of Relationships | Prior Transaction of Related Counter-Party | | | | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|--------------------------------------------------|----------------------------|--------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------------------|-------------------------------|------------------|--------|-------------------------------------------------------------------------------------------------------------|------------------------|-------------|
| | | | | | | | Owner | Relationship with the Company | Date of Transfer | Amount | | | |
| The Company | 5th Factory in Zhunan | January 17, 2020 (Note 1) | 1,398,000 | Full payment | Engaging others to build on its own land (The contractor is Ruentex Engineering & Construction Co., Ltd.) | - | - | - | - | - | No applicable | For operational use | None |
| | Factory with loading and unloading parking space | November 12, 2020 (Note 1) | 829,000 | As of June 30, 2022, the Company has paid \$787,550 thousand. | Engaging others to build on its own land (The contractor is Ruentex Engineering & Construction Co., Ltd.) | - | - | - | - | - | No applicable | For operational use | None |
| | Land | January 21, 2022 (Note 2) | 346,660 | Full payment | Miaoli County Government | - | - | - | - | - | Appraisal report, market value announced, and actual price registration of transactions in the neighborhood | For operational use | None |

Note 1: It was approved by the Board of Directors to engage others to build on the Company's own land, and completed and accepted in June 2022.

Note 2: It was approved by the Board of Directors, and the Company won the bid on January 25, 2022.

Phison Electronics Corp. and Subsidiaries

Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock

For the six months ended June 30, 2022

Table 3

(Amounts in Thousands)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Notes/Accounts Receivable (Payable) | | Note |
|--------------|------------------------------------------------------------------------------------|-----------------------------|---------------------|-----------|-----------------------------------------|-----------------------------------|-----------------------------------------------|---------------|-------------------------------------|-------------------------------------------------------------|--------|
| | | | Purchase/Sales | Amount | Percentage of Total Purchases/Sales (%) | Payment Terms | Unit Price | Payment Terms | Ending Balance | Percentage of Total Notes/Accounts Receivable (Payable) (%) | |
| The Company | Kioxia Taiwan Corporation | The subsidiary of KIC | Purchase | 7,926,502 | 36 | Net 30 days after monthly closing | None | None | (2,414,074) | (50) | |
| | Orient Semiconductor Electronics, Ltd. | The Company is its director | Processing cost | 1,287,945 | 6 | Net 30 days after monthly closing | None | None | (270,510) | (6) | |
| | Super Storage Technology Corporation | Sub-subsidiary | Processing cost | 229,991 | 1 | Net 30 days after monthly closing | None | None | (39,629) | (1) | Note 2 |
| | Kioxia Corporation | The Company's director | Sales | (845,068) | (3) | Net 60 days after monthly closing | None | None | 315,432 | 4 | |
| | Solid State Storage Technology Corporation (including Hsinchu Science Park Branch) | The subsidiary of KIC | Sales | (184,622) | (1) | Net 60 days after monthly closing | None | None | 11,608 | - | |

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Notes/Accounts Receivable (Payable) | | Note |
|--------------|-------------------------------------------|-------------------------------------|---------------------|-------------|-----------------------------------------|------------------------------------------------------------------------|-----------------------------------------------|---------------|-------------------------------------|-------------------------------------------------------------|--------|
| | | | Purchase/Sales | Amount | Percentage of Total Purchases/Sales (%) | Payment Terms | Unit Price | Payment Terms | Ending Balance | Percentage of Total Notes/Accounts Receivable (Payable) (%) | |
| The Company | Apacer Technology Inc. | The Company is its director | Sales | (618,933) | (2) | Net 45 days after monthly closing | None | None | 149,436 | 2 | |
| | Hefei Core Storage Electronic Limited | The subsidiary of Hosin Global (SZ) | Sales | (1,124,000) | (3) | Net 7~30 days after receipt date and Net 45 days after monthly closing | None | None | 399,599 | 5 | |
| | Hefei Datang Storage Technology Co., Ltd. | The subsidiary of Hefei Xinpeng | Sales | (122,622) | - | Net 45 days after receipt date and Net 60 days after receipt date | None | None | 55,881 | 1 | |
| | Hosin Global Electronics Co., Ltd. (HK) | The subsidiary of Hosin Global (SZ) | Sales | (2,467,652) | (7) | Net 45 days after monthly closing | None | None | 1,014,771 | 12 | |
| | Nextorage Corporation | Subsidiary | Sales | (270,044) | (1) | Net 60 days after monthly closing | None | None | 101,476 | 1 | Note 2 |
| | ProGrade Digital Inc. | Associate | Sales | (211,557) | (1) | Net 30 days after receipt date | None | None | 106,515 | 1 | |

Note 1: The sales and purchase prices to related parties were similar to those offered to non-related parties.

Note 2: The inter-company transactions and balance had been eliminated in the consolidated financial statements.

Phison Electronics Corp. and Subsidiaries
Receivables from Related Parties Amounting to at least NT\$100 Million or 20% of the Paid-in Capital
June 30, 2022

Table 4

(Amounts in Thousands)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period (Note 1) | Allowance for Bad Debts | Note |
|--------------|-----------------------------------------|-------------------------------------|----------------|---------------|---------|--------------|------------------------------------------------|-------------------------|--------|
| | | | | | Amount | Action Taken | | | |
| The Company | Apacer Technology Inc. | The Company is its director | 149,436 | 7.04 | - | - | 78,350 | 344 | |
| | Kioxia Corporation | The Company's director | 315,432 | 5.46 | - | - | - | 727 | |
| | ProGrade Digital Inc. | Associate | 106,515 | 4.51 | - | - | 20,587 | 246 | |
| | Hefei Core Storage Electronic Limited | The subsidiary of Hosin Global (SZ) | 399,599 | 6.62 | - | - | 180,347 | 921 | |
| | Hosin Global Electronics Co., Ltd. (HK) | The subsidiary of Hosin Global (SZ) | 1,014,771 | 3.76 | - | - | - | 2,339 | |
| | Nextorage Corporation | Subsidiary | 101,476 | 6.77 | - | - | - | - | Note 2 |

Note 1: Information as of July 20, 2022.

Note 2: The inter-company transactions and balance had been eliminated in the consolidated financial statements.

Phison Electronics Corp. and Subsidiaries
Business relationships and significant intercompany transactions
For the six months ended June 30, 2022

Table 5

(Amounts in Thousands)

| No. | Name of company | Name of counter-party | Nature of relationship (Note 1) | Intercompany transactions | | | |
|-----|-----------------|--------------------------------------|---------------------------------|---------------------------|---------|-----------------------|----------------------------------------------------------------|
| | | | | Account name | Amount | Trading terms | Percentage of the consolidated net revenue or total assets (%) |
| 0 | The Company | Ostek Corporation | 1 | Manufacturing cost | 18,070 | General trading terms | 0.05 |
| | | Super Storage Technology Corporation | 1 | Processing cost | 229,991 | General trading terms | 0.69 |
| | | | 1 | Accounts payable | 39,629 | General trading terms | 0.06 |
| | | | 1 | Right-of-use assets | 19,912 | General trading terms | 0.03 |
| | | | 1 | Lease liabilities | 20,155 | General trading terms | 0.03 |
| | | Phison Technology Inc. | 1 | Marketing expenses | 162,720 | General trading terms | 0.49 |
| | | | 1 | Other payables | 26,795 | General trading terms | 0.04 |
| | | Nextorage Corporation | 1 | Sales | 270,044 | General trading terms | 0.81 |
| | | | 1 | Accounts receivable | 101,476 | General trading terms | 0.16 |

Note 1: 1. Parent Company to its subsidiaries

Note 2: The amount of significant transaction should exceed \$10,000 thousand.

Phison Electronics Corp. and Subsidiaries
Information on Investees (Excluding Information on Investees in Mainland China)
For the six months ended June 30, 2022

Table 6

(Amounts in Thousands)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of June 30, 2022 | | | Net Income (Losses) of Investee | Share of Profits/Losses of Investee | Note |
|------------------|---------------------------------------|------------------------|------------------------------------------------------------------------|----------------------------|-------------------|-----------------------------|-----------------------------|----------------|---------------------------------|-------------------------------------|------------------------------------------------|
| | | | | June 30, 2022 | December 31, 2021 | Shares | Percentage of Ownership (%) | Carrying Value | | | |
| The Company | Global Flash Limited | Samoa | Investment and trade | 726,307 | 726,307 | 22,100,000 | 100.00 | 2,829,926 | 26,310 | 26,310 | Subsidiary and note 4 |
| | Regis Investment (Samoa) Limited | Samoa | Investment | 655,995 | 655,995 | 21,900,000 | 100.00 | 1,247,044 | (24,472) | (24,472) | Subsidiary and note 4 |
| | Phisontech Electronics Taiwan Corp. | Taiwan | Investment and trade | 581,363 | 581,363 | 55,000,000 | 100.00 | 695,782 | 31,637 | 31,666 | Subsidiary and note 4 |
| | Lian Xu Dong Investment Corporation | Taiwan | Investment | 650,000 | 650,000 | 65,000,000 | 100.00 | 548,021 | 20,778 | 20,778 | Subsidiary and note 4 |
| | EpoStar Electronics (BVI) Corporation | British Virgin Islands | Investment | 79,531 | 79,531 | 6,288,523 | 30.51 | 334,767 | 640 | 195 | Investee accounted for using the equity method |
| | Emtops Electronics Corporation | Taiwan | Investment | 380,000 | 380,000 | 38,000,000 | 100.00 | 373,329 | 4,596 | 4,596 | Subsidiary and note 4 |
| | Nextorage Corporation | Japan | R&D, design, manufacture and sale of flash memory application products | 219,715 | 81,232 | 12,000 | 100.00 | 322,437 | 88,537 | 88,537 | Subsidiary, notes 2 and 4 |
| | Power Flash (Samoa) Limited | Samoa | Investment and trade | 150,190 | 150,190 | 4,800,000 | 100.00 | 143,318 | 213 | 213 | Subsidiary and note 4 |
| | ProGrade Digital Inc. | USA | Flash memory related products and market development | 83,439 | 83,439 | 2,785,000 | 30.27 | 113,398 | 40,240 | 12,181 | Investee accounted for using the equity method |

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of June 30, 2022 | | | Net Income (Losses) of Investee | Share of Profits/Losses of Investee | Note |
|-------------------------------------|-----------------------------------------|-----------|-------------------------------------------------------------------------|----------------------------|-------------------|-----------------------------|-----------------------------|------------------|---------------------------------|-------------------------------------|------------------------------------------------|
| | | | | June 30, 2022 | December 31, 2021 | Shares | Percentage of Ownership (%) | Carrying Value | | | |
| | Everspeed Technology Limited | Samoa | Trade of electronic components | - | - | 1,000,000 | 100.00 | 1,956 | (4,067) | (4,067) | Subsidiary, note 3 and 4 |
| | Phison Electronics Japan Corp. | Japan | Sales and service office | 59,508 | 59,508 | 2,000 | 100.00 | 27,443 | 998 | 998 | Subsidiary and note 4 |
| | Microtops Design Corporation | Taiwan | Development and design of flash memory controllers and related products | 22,638 | 22,638 | 2,263,800 | 49.00 | 24,592 | 2,673 | 1,310 | Investee accounted for using the equity method |
| | | | | | | | | <u>6,662,013</u> | | <u>158,245</u> | |
| Lian Xu Dong Investment Corporation | Ostek Corporation | Taiwan | Manufacture and trade of electronic components | 9,000 | 9,000 | 900,000 | 100.00 | 28,198 | (773) | Note 1 | Sub-subsidiary and note 4 |
| Emtops Electronics Corporation | Phison Technology Inc. | USA | Sales and service office | 90,419 | 90,419 | 3,000,000 | 100.00 | 109,868 | 2,550 | Note 1 | Sub-subsidiary and note 4 |
| Phisontech Electronics Taiwan Corp. | Super Storage Technology Corporation | Taiwan | Manufacture and trade of electronic components | 452,954 | 452,954 | 34,842,595 | 100.00 | 574,220 | 31,617 | Note 1 | Sub-subsidiary and note 4 |
| Global Flash Limited | Core Storage Electronic (Samoa) Limited | Samoa | Investment and trade | 636,593 | 636,593 | 19,150,000 | 100.00 | 2,832,153 | 24,770 | Note 1 | Sub-subsidiary and note 4 |
| 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 | 92,851 | 199 | Note 1 | Sub-subsidiary and note 4 |
| Regis Investment (Samoa) Limited | RealYou Investment Limited | Hong Kong | Investment | 654,726 | 654,726 | 21,850,000 | 100.00 | 1,276,340 | (24,561) | Note 1 | Sub-subsidiary and note 4 |

Note 1: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.

Note 2: Since January 1, 2022, Nextorage Corporation has become a 100%-held subsidiary of the Company. Please refer to note 6(9) for related information.

Note 3: The liquidation procedure of Everspeed Technology Limited is in progress.

Note 4: The inter-company transactions and balance have been eliminated in the consolidated financial statements.

Phison Electronics Corp. and Subsidiaries
Information on Investment in Mainland China
For the six months ended June 30, 2022

Table 7

(Amounts in Thousands)

(1) The names of investees in Mainland China, the main businesses and products, and other information

| 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, 2022 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of June 30, 2022 | Net Income (Losses) of the Investee | Percentage of Ownership (%) | Investment Income (Losses) | Book Value | Accumulated Remittance of Earnings in as of June 30, 2022 | Note |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------------------|---------------------------------------------------------------------|------------------|--------|-------------------------------------------------------------------|-------------------------------------|-----------------------------|----------------------------|------------|-----------------------------------------------------------|--------|
| | | | | | Outflow | Inflow | | | | | | | |
| Ruhan Electronic Technology Limited | Design, R&D, sale of electronics product and technical support service and rendering of related services and investment | 182,825 | 2(1) | 182,825 | - | - | 182,825 | (30,034) | 100.00 | (30,034) | 118,744 | - | Note 3 |
| 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 | 2(1) | - | - | - | - | (123,771) | 24.23 | (29,998) | 103,365 | - | - |
| Hosin Global Electronics Co., Ltd. (SZ) | R&D and sale of electronic product and technical service and rendering of related services | 1,647,590 | 2(1) and 2(2) | 442,780 | - | - | 442,780 | 52,218 | 42.63 | 17,445 | 3,496,042 | - | - |
| Power Storage Technology (Shenzhen) Limited | Design, R&D, import and export of storage devices and electronic components | 43,520 | 2(3) | - | 43,520 | - | 43,520 | (195) | 100.00 | (195) | 44,195 | - | Note 3 |

(2) Limitation on investment in Mainland China

| Accumulated Investment in Mainland China as of June 30, 2022 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment (Note 2) |
|-----------------------------------------------------------------|-----------------------------------------------------------------|------------------------------------|
| 669,125 | 1,380,908 | 23,392,633 |

Note 1: Method of investment.

1. Direct investment in the company in Mainland China.
2. Indirect investment in Mainland China through an existing investee company in a third region.
 - (1) Indirect investment in Mainland China through an existing investee company (Regis Investment (Samoa) Limited) in a third region.
 - (2) Indirect investment in Mainland China through an existing investee company (Global Flash Limited) in a third region.
 - (3) Indirect investment in Mainland China through an existing investee company (Power Flash (Samoa) Limited) in a third region.

Note 2: In accordance with the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China amended on August 29, 2008, the limitation on investment in Mainland China shall not exceed 60% of the Company's net worth.

Note 3: The inter-company transactions and balance have been eliminated in the consolidated financial statements.