

Phison Electronics Corp. and Subsidiaries
Consolidated Financial Statements
With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2022 and 2021

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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.

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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 September 30, 2022, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2022, as well as the changes in equity and cash flows for the nine months ended September 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 \$3,566,775 thousand, constituting 6% of consolidated total assets as of September 30, 2022, total liabilities amounting to \$835,779 thousand, constituting 4% of consolidated total liabilities as of September 30, 2022, and total comprehensive income (loss) amounting to \$135,248 thousand and \$350,046 thousand, constituting 14% and 7% of consolidated total comprehensive income (loss) for the three months and nine months ended September 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 \$4,296,123 thousand as of September 30, 2022, and its equity in net earnings on these investee companies of \$(401,797) thousand and \$(400,664) thousand for the three months and nine months ended September 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 September 30, 2022, and of its consolidated financial performance for the three months and nine months ended September 30, 2022, as well as its consolidated cash flows for the nine months ended September 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 nine months ended September 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 November 5, 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)
November 4, 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 September 30, 2022 and 2021

Phison Electronics Corp. and subsidiaries

Consolidated Balance Sheets

September 30, 2022, December 31, 2021, and September 30, 2021

(Expressed in Thousands of New Taiwan Dollars)

	<u>September 30, 2022</u>		<u>December 31, 2021</u>		<u>September 30, 2021</u>			<u>September 30, 2022</u>		<u>December 31, 2021</u>		<u>September 30, 2021</u>	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Assets							Liabilities and Equity						
Current assets:							Current liabilities:						
1100 Cash and cash equivalents (note 6(1))	\$ 13,732,775	23	19,040,947	30	11,366,451	21	2100 Short-term borrowings (notes 6(13) and 8)	\$ 30,000	-	439,216	1	1,583,395	3
1110 Financial assets at fair value through profit or loss – current (note 6(2))	741,868	1	1,206,954	2	1,106,237	2	2130 Contract liabilities – current	146,769	-	203,044	-	183,102	-
1136 Financial assets at amortized cost – current (notes 6(3) and 8)	40,499	-	568,694	1	824,941	2	2170 Accounts payable	2,547,461	5	5,836,376	10	3,063,395	6
1170 Accounts receivable, net (note 6(5))	7,219,581	12	5,915,737	9	6,999,268	13	2180 Accounts payable – related parties (note 7)	2,281,104	4	3,200,307	5	1,685,781	3
1180 Accounts receivable – related parties, net (notes 6(5) and 7)	1,605,574	3	2,813,524	4	2,468,809	5	2200 Other payables (note 6(14))	9,453,256	16	9,821,146	16	9,013,528	17
1200 Other receivables (notes 6(6) and 7)	409,024	1	623,912	1	643,792	1	2230 Tax payable	130,667	-	1,223,434	2	935,221	2
1220 Tax assets	11,160	-	2,905	-	8,551	-	2280 Lease liabilities – current (note 6(11))	46,416	-	24,027	-	22,271	-
130X Inventories (note 6(7))	21,075,440	36	19,496,534	31	17,466,232	33	2320 Long-term borrowings, current portion (note 6(16))	31,124	-	30,947	-	30,831	-
1410 Prepayments	52,818	-	24,967	-	109,131	-	2399 Other current liabilities (notes 6(15), 7 and 9(3))	1,914,468	3	1,048,696	2	991,268	2
1479 Other current assets	1,541	-	2,413	-	4,066	-		<u>16,581,265</u>	<u>28</u>	<u>21,827,193</u>	<u>36</u>	<u>17,508,792</u>	<u>33</u>
	<u>44,890,280</u>	<u>76</u>	<u>49,696,587</u>	<u>78</u>	<u>40,997,478</u>	<u>77</u>	Non-Current liabilities:						
Non-current assets:							2530 Bonds payable (note 6(17))	3,434,652	6	3,412,855	5	-	-
1510 Financial assets at fair value through profit or loss – non-current (note 6(2))	321,416	1	451,569	1	461,991	1	2540 Long-term borrowings (note 6(16))	141,492	-	164,689	-	172,469	1
1517 Financial assets at fair value through other comprehensive income – non-current (note 6(4))	389,350	1	634,757	1	572,860	1	2570 Deferred tax liabilities	183,177	1	183,177	-	161,505	-
1550 Investments accounted for using the equity method (note 6(8))	4,296,123	7	4,155,042	7	3,723,164	7	2580 Lease liabilities – non-current (note 6(11))	94,729	-	16,003	-	13,648	-
1600 Property, plant and equipment (notes 6(10) and 8)	7,562,881	13	6,650,562	11	5,793,790	11	2640 Net defined benefit liabilities	106,089	-	104,897	-	104,301	-
1755 Right-of-use assets (note 6(11))	140,047	-	39,276	-	35,295	-	2645 Guarantee deposits received (note 9(3))	1,910,081	3	4,109	-	3,027	-
1780 Intangible assets (note 6(12))	296,298	-	314,671	-	272,595	1		<u>5,870,220</u>	<u>10</u>	<u>3,885,730</u>	<u>5</u>	<u>454,950</u>	<u>1</u>
1840 Deferred tax assets	529,317	1	495,193	1	432,963	1	Total liabilities	<u>22,451,485</u>	<u>38</u>	<u>25,712,923</u>	<u>41</u>	<u>17,963,742</u>	<u>34</u>
1900 Other non-current assets (note 9(2))	704,293	1	583,700	1	655,594	1	Equity (notes 6(20) and (21)):						
	<u>14,239,725</u>	<u>24</u>	<u>13,324,770</u>	<u>22</u>	<u>11,948,252</u>	<u>23</u>	3100 Common shares	1,970,740	3	1,970,740	3	1,970,740	4
Total assets	<u>\$ 59,130,005</u>	<u>100</u>	<u>63,021,357</u>	<u>100</u>	<u>52,945,730</u>	<u>100</u>	3200 Capital surplus	8,204,183	14	7,238,436	12	6,915,831	13
							3300 Retained earnings	28,742,133	49	27,995,974	44	26,199,810	49
							3400 Other equity interest	(176,451)	-	103,284	-	(104,393)	-
							3500 Treasury shares	(2,062,085)	(4)	-	-	-	-
							Total equity	<u>36,678,520</u>	<u>62</u>	<u>37,308,434</u>	<u>59</u>	<u>34,981,988</u>	<u>66</u>
							Total liabilities and equity	<u>\$ 59,130,005</u>	<u>100</u>	<u>63,021,357</u>	<u>100</u>	<u>52,945,730</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 nine months ended September 30, 2022 and 2021

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

	For the three months ended September 30,				For the nine months ended September 30,				
	2022		2021		2022		2021		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	Operating revenue (notes 6(23) and 7)	\$ 14,574,608	100	16,926,546	100	47,965,882	100	45,724,472	100
5000	Operating costs (notes 6(7), (24) and 7)	11,041,947	76	11,550,946	68	34,052,664	71	31,333,353	69
	Gross profit from operations	3,532,661	24	5,375,600	32	13,913,218	29	14,391,119	31
5910	Unrealized profit on transactions with associates	26,665	-	(19,671)	-	(12,075)	-	(66,870)	-
5950	Realized gross profit	3,559,326	24	5,355,929	32	13,901,143	29	14,324,249	31
	Operating expenses (notes 6(24) and 7):								
6100	Marketing expenses	322,256	2	275,786	2	934,415	2	742,491	2
6200	General and administrative expenses	209,278	1	197,480	1	839,877	2	619,217	1
6300	Research and development expenses	1,785,578	12	2,085,357	12	6,487,001	13	5,738,402	12
6450	Expected credit loss (reversal gain) (note 6(5))	20,992	-	(55,913)	-	39,237	-	(482)	-
	Total operating expenses	2,338,104	15	2,502,710	15	8,300,530	17	7,099,628	15
	Net operating income	1,221,222	9	2,853,219	17	5,600,613	12	7,224,621	16
	Non-operating income and expenses:								
7010	Other income (notes 6(9), (25) and 7)	47,246	-	48,993	-	160,069	-	116,008	-
7020	Other gains and losses (notes 6(9) and (25))	454,845	3	(90,282)	-	756,940	2	130,495	-
7050	Finance costs (note 6(25))	(8,562)	-	(4,579)	-	(27,054)	-	(15,512)	-
7100	Interest income	22,594	-	8,082	-	45,731	-	26,341	-
7060	Shares of profit (loss) of associates accounted for using the equity method (note 6(8))	(401,797)	(3)	45,695	-	(400,664)	(1)	187,706	1
		114,326	-	7,909	-	535,022	1	445,038	1
7900	Profit before tax	1,335,548	9	2,861,128	17	6,135,635	13	7,669,659	17
7950	Income tax expenses (note 6(19))	143,534	1	477,281	3	951,706	2	1,334,191	3
8200	Net profit for the period	1,192,014	8	2,383,847	14	5,183,929	11	6,335,468	14
8300	Other comprehensive income (loss):								
8310	Items that will not be reclassified subsequently to profit or loss								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26))	(148,906)	(1)	48,363	-	(160,619)	-	107,551	-
8320	Shares of other comprehensive income (loss) of associates accounted for using the equity method	(143,580)	(1)	-	-	(230,084)	-	98,327	-
	Total items that will not be reclassified subsequently to profit or loss	(292,486)	(2)	48,363	-	(390,703)	-	205,878	-
8360	Items that may be reclassified subsequently to profit or loss								
8361	Exchange differences on translation of foreign financial statements	98,759	1	2,812	-	221,485	-	(118,057)	-
8399	Income tax related to items that may be reclassified subsequently (note 6(19))	(19,752)	-	-	-	(15,585)	-	-	-
	Total items that may be reclassified subsequently to profit or loss	79,007	1	2,812	-	205,900	-	(118,057)	-
8300	Other comprehensive income	(213,479)	(1)	51,175	-	(184,803)	-	87,821	-
8500	Total comprehensive income	\$ 978,535	7	2,435,022	14	4,999,126	11	6,423,289	14
	Earnings per share (New Taiwan Dollars) (note 6(22)):								
9750	Basic earnings per share	\$ 6.13		12.10		26.42		32.15	
9850	Diluted earnings per share	\$ 5.84		11.75		24.83		31.15	

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 nine months ended September 30, 2022 and 2021
(Expressed in Thousands of New Taiwan Dollars)

	Common shares	Capital surplus	Retained earnings			Total	Total other equity interest		Treasury shares	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	-	-	-	-	6,335,468	6,335,468	-	-	-	-	6,335,468
Other comprehensive income (loss) for the period	-	-	-	-	-	-	(118,057)	205,878	87,821	-	87,821
Total comprehensive income (loss) for the period	-	-	-	-	6,335,468	6,335,468	(118,057)	205,878	87,821	-	6,423,289
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	1,223,777	-	(1,223,777)	-	-	-	-	-	-
Cash dividends of common shares	-	-	-	-	(6,503,442)	(6,503,442)	-	-	-	-	(6,503,442)
Reversal of special reserve	-	-	-	(20,557)	20,557	-	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	154,900	-	-	(422,984)	(422,984)	-	-	-	-	(268,084)
Share-based payments	-	174,758	-	-	-	-	-	-	-	-	174,758
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	26,873	26,873	-	(26,873)	(26,873)	-	-
Balance at September 30, 2021	\$ 1,970,740	6,915,831	5,530,308	155,568	20,513,934	26,199,810	(155,148)	50,755	(104,393)	-	34,981,988
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	-	-	-	-	5,183,929	5,183,929	-	-	-	-	5,183,929
Other comprehensive income (loss) for the period	-	-	-	-	-	-	205,900	(390,703)	(184,803)	-	(184,803)
Total comprehensive income (loss) for the period	-	-	-	-	5,183,929	5,183,929	205,900	(390,703)	(184,803)	-	4,999,126
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	817,193	-	(817,193)	-	-	-	-	-	-
Cash dividends of common shares	-	-	-	-	(4,532,702)	(4,532,702)	-	-	-	-	(4,532,702)
Reversal of special reserve	-	-	-	(155,568)	155,568	-	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	679,918	-	-	-	-	-	-	-	-	679,918
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,062,085)	(2,062,085)
Share-based payments	-	285,829	-	-	-	-	-	-	-	-	285,829
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	94,932	94,932	-	(94,932)	(94,932)	-	-
Balance at September 30, 2022	\$ 1,970,740	8,204,183	6,347,501	-	22,394,632	28,742,133	62,337	(238,788)	(176,451)	(2,062,085)	36,678,520

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 nine months ended September 30, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30,	
	2022	2021
Cash flows from operating activities:		
Profit before income tax	\$ 6,135,635	7,669,659
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	480,563	341,448
Amortization expense	274,492	189,732
Expected credit loss (reversal gain)	39,237	(482)
Net loss (gain) on financial assets at fair value through profit or loss	313,852	(169,353)
Finance costs	27,054	15,512
Interest income	(45,731)	(26,341)
Dividend income	(89,731)	(71,623)
Share-based payments	285,829	174,758
Shares of loss (profit) of associates accounted for using the equity method	400,664	(187,706)
Loss on disposal of property, plant and equipment	1,457	-
Gain on disposal of investments accounted for using the equity method	(30,426)	-
Unrealized profit (loss) on transactions with associates	12,075	66,870
Unrealized foreign exchange loss (gain)	336,562	(11,082)
Inventory obsolescence loss (reversal gain)	1,091,934	(129,726)
Recognition (reversal) of refund liabilities	(30,899)	495,871
Profit from lease modification	(190)	(5)
Gain recognized in bargain purchase transaction	(16,289)	-
Total adjustments to reconcile profit (loss)	3,050,453	687,873
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	672,785	(3,421,061)
Other receivables	257,577	(323,786)
Inventories	(2,562,999)	(7,195,027)
Prepayments	(27,851)	(34,914)
Other current assets	1,673	29,149
Contract liabilities	(56,275)	147,549
Accounts payable (including related parties)	(4,651,136)	1,285,407
Other payables	(562,652)	1,023,738
Other current liabilities	(33,009)	(127,783)
Net defined benefit liabilities	1,192	773
Total changes in operating assets and liabilities	(6,960,695)	(8,615,955)
Cash inflow (outflow) generated from operations	2,225,393	(258,423)
Interest paid	(5,638)	(14,691)
Income taxes paid	(2,048,122)	(717,485)
Net cash flows from (used in) operating activities	171,633	(990,599)

(Continued)

See accompanying notes to consolidated financial statements.

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

	For the nine months ended September 30,	
	2022	2021
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(28,494)	(105,005)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	12,650	-
Acquisition of financial assets at amortized cost	(40)	(3,652,681)
Proceeds from disposal of financial assets at amortized cost	547,960	3,142,742
Acquisition of financial assets at fair value through profit or loss	(2,395)	(203,338)
Proceeds from disposal of financial assets at fair value through profit or loss	377,473	4,721,119
Proceeds from capital reduction of financial assets at fair value through profit or 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	(1,348,927)	(1,412,762)
Proceeds from disposal of property, plant and equipment	272	-
Increase in refundable deposits	(13,651)	(520,134)
Acquisition of intangible assets	(253,952)	(148,444)
Increase in prepayments for land and equipment	(22,203)	(116,134)
Interest received	44,336	25,390
Dividends received	89,731	129,564
Net cash flows from (used in) investing activities	(614,542)	1,930,074
Cash flows from financing activities:		
Increase in short-term loans	1,967,656	7,227,307
Decrease in short-term loans	(2,380,651)	(7,130,637)
Repayments of long-term borrowings	(23,020)	(22,822)
Increase (decrease) in guarantee deposits received	2,488,752	(1,959)
Payment of lease liabilities	(35,938)	(15,305)
Cash dividends paid	(4,532,738)	(4,532,702)
Payments to acquire treasury shares	(2,062,085)	-
Net cash flows used in financing activities	(4,578,024)	(4,476,118)
Effect of exchange rate changes on cash and cash equivalents	(287,239)	(58,028)
Net decrease in cash and cash equivalents	(5,308,172)	(3,594,671)
Cash and cash equivalents at beginning of period	19,040,947	14,961,122
Cash and cash equivalents at end of period	\$ 13,732,775	11,366,451

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

September 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 November 4, 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”
- Amendments to IFRS 16 “Requirements for Sale and Leaseback Transactions”

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
			September 30, 2022	December 31, 2021	September 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	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	

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

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

Note 1: Everspeed Technology Limited was liquidated in July 2022.

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.

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

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.

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

	September 30, 2022	December 31, 2021	September 30, 2021
Cash	\$ 145	230	125
Demand deposits and check deposits	6,933,766	13,292,251	5,154,543
Cash equivalents – time deposits	<u>6,798,864</u>	<u>5,748,466</u>	<u>6,211,783</u>
	<u>\$ 13,732,775</u>	<u>19,040,947</u>	<u>11,366,451</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

	September 30, 2022	December 31, 2021	September 30, 2021
Financial assets at fair value through profit or loss – current:			
Beneficiary certificates – open-end funds	\$ 110,542	473,978	473,741
Domestic listed stock (note)	631,326	728,076	632,496
Derivative instruments – convertible bonds (note 6(17))	<u>-</u>	<u>4,900</u>	<u>-</u>
	<u>\$ 741,868</u>	<u>1,206,954</u>	<u>1,106,237</u>

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Financial assets at fair value through profit or loss – non-current:			
Domestic private equity funds	\$ 42,824	39,909	40,325
Domestic listed stocks	-	-	25,560
Domestic unlisted stocks	162,184	302,867	299,168
Foreign unlisted stocks	<u>116,408</u>	<u>108,793</u>	<u>96,938</u>
	<u>\$ 321,416</u>	<u>451,569</u>	<u>461,991</u>

Note: In August 2022, Apacer Technology Inc. issued additional ordinary shares in exchange for the common stock of UD INFO Corp., resulting in the Company to acquire 2,505 shares of newly issued common stock of Apacer Technology Inc. in exchange for the previously held 1,252 shares of UD INFO Corp., with the base date set on August 1, 2022.

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost – current

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Segregated foreign exchange deposit account for Offshore Funds	\$ -	528,235	784,482
Pledged time deposits	<u>40,499</u>	<u>40,459</u>	<u>40,459</u>
	<u>\$ 40,499</u>	<u>568,694</u>	<u>824,941</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>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Domestic unlisted stocks (note)	\$ 190,944	294,433	208,510
Foreign unlisted stocks	<u>198,406</u>	<u>340,324</u>	<u>364,350</u>
	<u>\$ 389,350</u>	<u>634,757</u>	<u>572,860</u>

Note: Please refer to note 6(2) for related information.

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

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)

	September 30, 2022	December 31, 2021	September 30, 2021
Accounts receivable	\$ 7,297,354	5,955,927	7,039,895
Accounts receivable – related parties	1,614,747	2,821,043	2,468,809
	8,912,101	8,776,970	9,508,704
Less: loss allowance	(86,946)	(47,709)	(40,627)
Accounts receivable, net	<u>\$ 8,825,155</u>	<u>8,729,261</u>	<u>9,468,077</u>

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.

	September 30, 2022		
	Gross carrying amount	Weighted- average loss rate (%)	Loss allowance
Current	\$ 8,343,753	0.31	25,630
1~60 days past due	538,161	5.79	31,133
91~120 days past due	60	93.33	56
More than 151 days past due	30,127	100.00	30,127
	<u>\$ 8,912,101</u>		<u>86,946</u>

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

	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
	September 30, 2021		
	Gross carrying amount	Weighted- average loss rate (%)	Loss allowance
Current	\$ 8,732,599	0.16	13,856
1~60 days past due	766,697	2.35	18,040
61~90 days past due	501	36.53	183
91~120 days past due	656	45.27	297
More than 151 days past due	8,251	100.00	8,251
	\$ 9,508,704		40,627

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

	For the nine months ended September 30,	
	2022	2021
Balance, beginning of the period	\$ 47,709	41,109
Impairment losses recognized (reversed)	39,237	(482)
Balance, end of the period	\$ 86,946	40,627

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.

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

The outstanding sold accounts receivable at the end of the period were as follows:

(Unit: USD in Thousands)

September 30, 2022				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ <u>2,137</u>	<u>1,776</u>	0.55~0.65	Note 1~4

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

September 30, 2021				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ <u>1,706</u>	<u>1,482</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 September 30, 2022, December 31, 2021, and September 30, 2021, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$56,393 thousand, \$42,292 thousand and \$41,269 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.

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

(6) Other receivables

	September 30, 2022	December 31, 2021	September 30, 2021
Tax refund receivable	\$ 315,696	470,137	504,508
Factored accounts receivable	56,393	42,292	41,269
Liquidation refund receivable from investees	-	70,991	70,991
Others	36,935	40,492	27,024
Less: Loss allowance	-	-	-
Other receivables	<u>\$ 409,024</u>	<u>623,912</u>	<u>643,792</u>

(7) Inventories

	September 30, 2022	December 31, 2021	September 30, 2021
Raw materials	\$ 14,886,701	11,810,664	7,903,747
Work in process	3,003,853	4,647,351	6,444,438
Semi-finished goods	2,952,324	2,902,052	2,944,594
Finished goods	232,562	136,467	173,453
	<u>\$ 21,075,440</u>	<u>19,496,534</u>	<u>17,466,232</u>

The costs of inventories recognized as costs of goods sold for the three months and nine months ended September 30, 2022 and 2021 were \$11,041,947 thousand, \$11,550,946 thousand, \$34,052,664 thousand and \$31,333,353 thousand, respectively.

The costs of goods sold for the three months and nine months ended September 30, 2022 and 2021 included inventory obsolescence loss (reversal gain) of \$737,427 thousand, \$84,037 thousand, \$1,091,934 thousand and \$(129,726) thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

	September 30, 2022	December 31, 2021	September 30, 2021
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,850,547	3,402,515	3,118,159
EpoStar Electronics (BVI) Corporation	191,847	421,077	231,708
Hefei Xinpeng Technology Co., Ltd.	95,881	135,886	140,462
ProGrade Digital Inc.	131,226	98,019	106,137
Microtops Design Corporation	26,622	23,282	23,765
Nextorage Corporation (Note)	-	74,263	102,933
	<u>\$ 4,296,123</u>	<u>4,155,042</u>	<u>3,723,164</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.

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

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

Name of Associates	Principal Activity	Main Operating Location/ Registered Country	Ownership interest (%)		
			September 30, 2022	December 31, 2021	September 30, 2021
HOSIN Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	China	40.16	42.63	43.32

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

	September 30, 2022	December 31, 2021	September 30, 2021
Current assets	\$ 13,631,516	8,691,933	6,935,388
Non-current assets	5,032,287	5,079,009	4,441,556
Current liabilities	(7,779,807)	(5,280,167)	(3,571,784)
Non-current liabilities	(1,167,580)	(444,712)	(410,806)
Net assets	<u>\$ 9,716,416</u>	<u>8,046,063</u>	<u>7,394,354</u>
	For the three months ended September 30,	For the nine months ended September 30,	
	2022	2021	2022
	2021	2022	2021
Operating revenue	<u>\$ 5,755,075</u>	<u>4,762,017</u>	<u>18,555,902</u>
Net profit (loss)	\$ (986,810)	114,989	(934,592)
Other comprehensive income (loss)	105,227	5,778	213,248
	(4,480)		(4,480)
Total comprehensive income (loss)	<u>\$ (881,583)</u>	<u>120,767</u>	<u>(721,344)</u>
	September 30, 2022	December 31, 2021	September 30, 2021
Summarized information of the carrying amount of significant associates	<u>\$ 3,850,547</u>	<u>3,402,515</u>	<u>3,118,159</u>

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Attributable to the Group:				
Net profit (loss)	\$ (402,751)	50,635	(385,306)	151,541
Other comprehensive income (loss)	3,818	5,167	38,866	(64,550)
Total comprehensive income (loss)	<u>\$ (398,933)</u>	<u>55,802</u>	<u>(346,440)</u>	<u>86,991</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.

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 nine months ended September 30, 2021.

The Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2022, therefore, the changes in equity of associate recognized in the capital surplus by the Group amounted to \$679,447 thousand for the nine months ended September 30, 2022.

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

	September 30,	December 31,	September 30,
	2022	2021	2021
Summarized information of the carrying amount of associates that were not individually material	<u>\$ 445,576</u>	<u>752,527</u>	<u>605,005</u>

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Attributable to the Group:				
Net profit (loss)	\$ 954	(4,940)	(15,358)	36,165
Other comprehensive income (loss)	(137,602)	(1,228)	(218,954)	76,074
Total comprehensive income (loss)	<u>\$ (136,648)</u>	<u>(6,168)</u>	<u>(234,312)</u>	<u>112,239</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 nine months ended September 30, 2021.

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

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.

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>\$</u>	<u>24,547</u>

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

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><u>\$ (16,289)</u></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 nine months ended September 30, 2022.

(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	386,280	226,614	358,050	99,647	250,983	1,321,574
Acquisition through business combination	189	10,841	1,519	23,376	212	36,137
Disposal for the period	-	-	(172,208)	(48,475)	-	(220,683)
Reclassification	-	2,158,507	17,374	12,632	(2,189,389)	(876)
Effect of movements in exchange rates	<u>(20)</u>	<u>(970)</u>	<u>3,552</u>	<u>904</u>	<u>(19)</u>	<u>3,447</u>
Balance at September 30, 2022	<u><u>\$ 2,149,269</u></u>	<u><u>5,021,509</u></u>	<u><u>1,579,851</u></u>	<u><u>362,802</u></u>	<u><u>43,926</u></u>	<u><u>9,157,357</u></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	-	9,298	310,631	80,612	1,030,203	1,430,744
Disposal for the period	-	-	(154,030)	(18,317)	-	(172,347)
Reclassification	-	3,034	35,018	5,452	-	43,504
Effect of movements in exchange rates	<u>-</u>	<u>-</u>	<u>(1,186)</u>	<u>(373)</u>	<u>-</u>	<u>(1,559)</u>
Balance at September 30, 2021	<u><u>\$ 1,144,737</u></u>	<u><u>2,615,971</u></u>	<u><u>1,286,449</u></u>	<u><u>289,410</u></u>	<u><u>1,742,600</u></u>	<u><u>7,079,167</u></u>
Depreciation:						
Balance at January 1, 2022	\$ -	596,723	634,894	135,579	-	1,367,196
Depreciation for the period	-	89,307	293,856	60,946	-	444,109
Disposal for the period	-	-	(171,995)	(46,959)	-	(218,954)
Effect of movements in exchange rates	<u>-</u>	<u>(21)</u>	<u>757</u>	<u>1,389</u>	<u>-</u>	<u>2,125</u>
Balance at September 30, 2022	<u><u>\$ -</u></u>	<u><u>686,009</u></u>	<u><u>757,512</u></u>	<u><u>150,955</u></u>	<u><u>-</u></u>	<u><u>1,594,476</u></u>
Balance at January 1, 2021	\$ -	518,527	506,588	107,170	-	1,132,285
Depreciation for the period	-	58,423	222,975	44,356	-	325,754
Disposal for the period	-	-	(154,030)	(18,317)	-	(172,347)
Effect of movements in exchange rates	<u>-</u>	<u>-</u>	<u>(298)</u>	<u>(17)</u>	<u>-</u>	<u>(315)</u>
Balance at September 30, 2021	<u><u>\$ -</u></u>	<u><u>576,950</u></u>	<u><u>575,235</u></u>	<u><u>133,192</u></u>	<u><u>-</u></u>	<u><u>1,285,377</u></u>
Carrying amounts:						
Balance at January 1, 2022	<u><u>\$ 1,762,820</u></u>	<u><u>2,029,794</u></u>	<u><u>736,670</u></u>	<u><u>139,139</u></u>	<u><u>1,982,139</u></u>	<u><u>6,650,562</u></u>
Balance at September 30, 2022	<u><u>\$ 2,149,269</u></u>	<u><u>4,335,500</u></u>	<u><u>822,339</u></u>	<u><u>211,847</u></u>	<u><u>43,926</u></u>	<u><u>7,562,881</u></u>
Balance at January 1, 2021	<u><u>\$ 1,144,737</u></u>	<u><u>2,085,112</u></u>	<u><u>589,428</u></u>	<u><u>114,866</u></u>	<u><u>712,397</u></u>	<u><u>4,646,540</u></u>
Balance at September 30, 2021	<u><u>\$ 1,144,737</u></u>	<u><u>2,039,021</u></u>	<u><u>711,214</u></u>	<u><u>156,218</u></u>	<u><u>1,742,600</u></u>	<u><u>5,793,790</u></u>

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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 completed and accepted in June 2022.

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 September 30, 2022	\$ <u>139,300</u>	<u>747</u>	<u>-</u>	<u>140,047</u>
Balance at September 30, 2021	\$ <u>33,036</u>	<u>615</u>	<u>1,644</u>	<u>35,295</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 nine months ended September 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.

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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 September 30, 2022	\$ <u>11,823</u>	<u>108</u>	<u>-</u>	<u>11,931</u>
For the three months ended September 30, 2021	\$ <u>4,548</u>	<u>95</u>	<u>821</u>	<u>5,464</u>
For the nine months ended September 30, 2022	\$ <u>35,330</u>	<u>302</u>	<u>822</u>	<u>36,454</u>
For the nine months ended September 30, 2021	\$ <u>12,737</u>	<u>492</u>	<u>2,465</u>	<u>15,694</u>

B. Lease liabilities

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Current	\$ <u>46,416</u>	<u>24,027</u>	<u>22,271</u>
Non-current	\$ <u>94,729</u>	<u>16,003</u>	<u>13,648</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 September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Interest expenses relating to lease liabilities	\$ <u>274</u>	<u>170</u>	<u>879</u>	<u>575</u>
Expenses relating to short-term lease	\$ <u>2,546</u>	<u>1,187</u>	<u>6,145</u>	<u>3,209</u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	\$ <u>337</u>	<u>247</u>	<u>790</u>	<u>589</u>

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

	<u>For the nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>
Total cash outflow for leases	\$ <u>43,752</u>	<u>19,678</u>

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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 September 30, 2022	\$ <u>252,777</u>	<u>43,521</u>	<u>296,298</u>
Balance at September 30, 2021	\$ <u>228,196</u>	<u>44,399</u>	<u>272,595</u>

There was no significant addition or disposal of intangible assets of the Group for the nine months ended September 30, 2022 and 2021. Please refer to note 12 for the amount of amortization for the three and nine months ended September 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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Unsecured bank loans	\$ -	409,216	1,553,395
Secured bank loans	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
	\$ <u>30,000</u>	<u>439,216</u>	<u>1,583,395</u>
Range of interest rates at the end of period (%)	<u>1.29</u>	<u>0.50~1.07</u>	<u>0.47~1.07</u>

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Salaries and bonus payable	\$ 6,270,344	6,711,819	5,920,621
Dividend payable (note 6(20))	1,970,963	1,970,740	1,970,740
Others	<u>1,211,949</u>	<u>1,138,587</u>	<u>1,122,167</u>
	\$ <u>9,453,256</u>	<u>9,821,146</u>	<u>9,013,528</u>

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(15) Other current liabilities

	September 30, 2022	December 31, 2021	September 30, 2021
Refund liabilities	\$ 716,113	828,962	824,356
Guarantee deposits received (note 9(3))	952,500	-	-
Payables for purchases of equipment	73,252	100,605	48,481
Receipts under custody	91,533	64,036	63,223
Others	81,070	55,093	55,208
	<u>\$ 1,914,468</u>	<u>1,048,696</u>	<u>991,268</u>

(16) Long-term borrowings

	September 30, 2022		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	2.00	January, 2028	\$ 172,616
Less: current portion			<u>(31,124)</u>
Total			<u>\$ 141,492</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			<u>(30,947)</u>
Total			<u>\$ 164,689</u>
	September 30, 2021		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	1.50	January, 2028	\$ 203,300
Less: current portion			<u>(30,831)</u>
Total			<u>\$ 172,469</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%.

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The details of unsecured convertible bonds were as follows:

	September 30, 2022	December 31, 2021
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	(65,348)	(87,145)
Bonds payable at the end of period	<u>\$ 3,434,652</u>	<u>3,412,855</u>
Embedded derivative – call and conversion options, included in financial assets at fair value through profit or loss – current	<u>\$ -</u>	<u>4,900</u>
Embedded derivative instruments – Equity component – conversion options, included in capital surplus – stock options	<u>\$ 102,369</u>	<u>102,369</u>
	For the three months ended September 30, 2022	For the nine months ended September 30, 2022
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	<u>\$ -</u>	<u>(4,900)</u>
Interest expense	<u>\$ 7,363</u>	<u>21,797</u>

The conversion price per share at the time of issuance of NTD570 is calculated by multiplying the closing price of the Company's ordinary 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.

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Pension	\$ 959	768	2,879	2,303

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 nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Pension	\$ 58,092	40,417	158,076	110,616

(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 nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Pension	\$ 1,758	818	4,375	1,544

(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 nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Current tax expense	\$ 143,534	477,281	951,706	1,334,191

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Exchange differences on translation of foreign financial statements	\$ 19,752	-	15,585	-

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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.

(20) Equity

A. Common shares

As of September 30, 2022, December 31, 2021, and September 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.

The reconciliation of number of outstanding shares of the Company for the nine months ended September 30, 2022 and 2021, respectively were as follows:

(Unit: Shares in Thousands)

	For the nine months ended September 30,	
	2022	2021
Balance, beginning of the period	197,074	197,074
Effect of repurchasing treasury shares	(6,860)	-
Balance, end of the period	190,214	197,074

B. Capital surplus

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

	September 30, 2022	December 31, 2021	September 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	948,443	268,525	154,900
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	765,008	479,179	372,568
Due to recognition of equity component of convertible bonds	102,369	102,369	-
Expired employee share options	227	227	227
	\$ 8,204,183	7,238,436	6,915,831

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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.

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.

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

	First Half of 2022
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 of the first half of 2022 will be submitted to the shareholders' meeting for approval in the following year.

The appropriation of 2021 earnings was as follows:

	Second Half of 2021	First Half of 2021
Resolution date of the Company's Board of Directors	March 4, 2022	August 6, 2021
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 2020 earnings was as follows:

	2020
Resolution date of the Company's shareholders' meeting	July 26, 2021
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.

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D. Treasury shares

On July 15, 2022, the Company's Board of Directors resolved to plan 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. Based on the resolution mentioned above, after fully executing, the Company bought back 6,860 thousand treasury shares amounting to \$2,062,085 thousand in total.

E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	For the nine months ended September 30,	
	2022	2021
Balance at January 1	\$ (143,563)	(37,091)
Foreign exchange differences (net of tax)	205,900	(118,057)
Balance at September 30	\$ 62,337	(155,148)

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

	For the nine months ended September 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)	(390,703)	205,878
Disposal for the period	(94,932)	(26,873)
Balance at September 30	\$ (238,788)	50,755

(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 September 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)
2022 First employee share options (note)	July 27, 2022	September 7, 2022	6,000	service period between 2~3 years	293.50	293.50

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<u>Type</u>	<u>Authorization date</u>	<u>Issue date</u>	<u>Issued units (in thousands)</u>	<u>Grant Period</u>	<u>Exercise price per share (TWD)</u>	<u>Adjusted exercise price per share (TWD)</u>
2021 First employee share options (note)	October 4, 2021	November 19, 2021	6,000	service period between 2~3 years	414.50	note
2020 First employee share options	April 10, 2020	October 5, 2020	6,000	service period between 2~2.5 years	262.00	235.00
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	235.00

The estimated fair values of the options granted were calculated at the date of grant using the Black-Scholes option pricing model. The Group recognized compensation cost amounting to \$285,829 thousand and \$174,758 thousand for the nine months ended September 30, 2022 and 2021, respectively.

Weighted-average assumptions were as follows:

	<u>2022 1st</u>	<u>2021 1st</u>	<u>2020 1st</u>	<u>2019 2nd</u>
Grant-date share price (NTD)	\$ 293.50	414.50	262.00	262.00
Exercise price (NTD)	293.50	414.50	262.00	262.00
Expected volatility (%)	38.77~39.50	37.44~37.96	35.27~35.45	35.27~35.45
Expected dividend yield (%)	-	-	-	-
Expected life (year)	4	4	3	3
Risk free interest rate (%)	1.05~1.11	0.40~0.41	0.20~0.22	0.20~0.22
Fair value per option (NTD)	\$ 84.61	112.17	59.63	59.63

Note: The Company retracted and cancelled all employee stock options issued in 2021 and replaced them with employee stock options issued in 2022, with the consent of the share option holders.

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Information related to employee share options was as follows:

A. 2022 First employee share options

<u>Employee share options</u>	<u>For the nine months ended September 30,</u>	
	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted- average exercise price (NTD)</u>
Outstanding at January 1	-	\$ -
Granted during the period	6,000	293.50
Exercised during the period	-	-
Forfeited during the period	(23)	-
Outstanding at September 30	<u>5,977</u>	293.50
Exercisable at September 30	<u>-</u>	

As of September 30, 2022, the weighted-average remaining contractual life for outstanding option were 3.94 years.

B. 2021 First employee share options

<u>Employee share options</u>	<u>For the nine months ended September 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)	-
Retracted during the period	(5,900)	-
Outstanding at September 30	<u>-</u>	-
Exercisable at September 30	<u>-</u>	

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C. 2020 First employee share options

	For the nine Months ended September 30, 2022		For the nine months ended September 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)
Employee share options				
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 September 30	<u>5,775</u>	235.00	<u>5,789</u>	249.30
Exercisable at September 30	<u>-</u>		<u>-</u>	

As of September 30, 2022 and 2021, the weighted-average remaining contractual life for outstanding option were 1 and 2 years, respectively.

D. 2019 Second employee share options

	For the nine months ended September 30, 2022		For the nine months ended September 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)
Employee share options				
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 September 30	<u>1,938</u>	235.00	<u>1,944</u>	249.30
Exercisable at September 30	<u>-</u>		<u>-</u>	

As of September 30, 2022 and 2021, the weighted-average remaining contractual life for outstanding option, were 1 and 2 years, respectively.

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(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 nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net profit attributable to ordinary shareholders of the Company	\$ <u>1,192,014</u>	<u>2,383,847</u>	<u>5,183,929</u>	<u>6,335,468</u>
Weighted-average number of shares outstanding during the year (in thousands of shares)	<u>194,415</u>	<u>197,074</u>	<u>196,178</u>	<u>197,074</u>
Basic earnings per share (NTD)	\$ <u>6.13</u>	<u>12.10</u>	<u>26.42</u>	<u>32.15</u>

B. Diluted earnings per share

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net profit attributable to ordinary shareholders of the Company	\$ 1,192,014	2,383,847	5,183,929	6,335,468
Effect of dilutive potential ordinary shares				
Convertible bonds	<u>5,890</u>	<u>-</u>	<u>13,517</u>	<u>-</u>
Net profit attributable to ordinary shareholders of the Company	\$ <u>1,197,904</u>	<u>2,383,847</u>	<u>5,197,446</u>	<u>6,335,468</u>
Weighted average number of shares outstanding during the year (in thousands of shares)	194,415	197,074	196,178	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)				
Employee share options	3,154	3,481	3,156	3,481
Employees' compensation	1,049	2,241	3,616	2,820
Effect of conversion of convertible bonds	<u>6,507</u>	<u>-</u>	<u>6,364</u>	<u>-</u>
	<u>205,125</u>	<u>202,796</u>	<u>209,314</u>	<u>203,375</u>
Diluted earnings per share (NTD)	\$ <u>5.84</u>	<u>11.75</u>	<u>24.83</u>	<u>31.15</u>

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(23) Operating revenue

Disaggregation of revenues from contracts with customers were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Primary geographical markets:				
Asia	\$ 11,185,906	13,020,229	37,937,200	34,215,095
America	2,732,241	3,046,183	7,927,230	8,575,878
Europe	632,446	816,955	2,032,540	2,823,389
Australia	24,015	43,179	68,684	108,747
Others	-	-	228	1,363
	<u>\$ 14,574,608</u>	<u>16,926,546</u>	<u>47,965,882</u>	<u>45,724,472</u>
Major product categories:				
Flash memory module products	\$ 9,837,700	13,294,305	33,205,724	36,917,571
Controllers	3,439,738	2,584,800	11,397,236	6,554,264
Integrated Circuit	741,124	986,908	1,800,229	2,076,338
Others	556,046	60,533	1,562,693	176,299
	<u>\$ 14,574,608</u>	<u>16,926,546</u>	<u>47,965,882</u>	<u>45,724,472</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 September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Employees' compensation	<u>\$ 278,592</u>	<u>321,226</u>	<u>834,505</u>	<u>844,961</u>
Remuneration of directors	<u>\$ 7,450</u>	<u>-</u>	<u>35,246</u>	<u>45,000</u>

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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 year ended December 31, 2021.

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 September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
	Dividend income	\$ 17,230	35,564	89,731
Rent income	5,350	4,233	16,355	15,711
Gain on a bargain purchase (note 6(9))	-	-	16,289	-
Others	24,666	9,196	37,694	28,674
	\$ 47,246	48,993	160,069	116,008

B. Other gains and losses

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
	Gain on disposal of investments accounted for using the equity method (note 6(9))	\$ 2,737	-	30,426
Net foreign exchange gains (losses)	517,722	50,369	1,041,691	(36,312)
Gains (Losses) on financial assets at fair value through profit or loss	(64,131)	(138,100)	(313,852)	169,353
Others	(1,483)	(2,551)	(1,325)	(2,546)
	\$ 454,845	(90,282)	756,940	130,495

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C. Finance costs

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Interest on bank loans	\$ 925	4,409	4,357	14,937
Interest on lease liabilities	274	170	879	575
Interest on convertible bond	7,363	-	21,797	-
Others	-	-	21	-
	<u>\$ 8,562</u>	<u>4,579</u>	<u>27,054</u>	<u>15,512</u>

(26) Financial instruments

A. Categories of financial instruments

	September 30,	December 31,	September 30,
	2022	2021	2021
Financial assets			
Financial assets at FVTPL (current and non-current)	\$ 1,063,284	1,658,523	1,568,228
Financial assets at amortized cost (Note 1)	23,630,335	29,488,182	22,303,261
Financial assets at FVTOCI	<u>389,350</u>	<u>634,757</u>	<u>572,860</u>
	<u>\$ 25,082,969</u>	<u>31,781,462</u>	<u>24,444,349</u>
Financial liabilities			
Financial liabilities at amortized cost (Note 2)	<u>\$ 20,781,670</u>	<u>22,909,645</u>	<u>15,552,426</u>

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.

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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.

(i) Exposure to foreign currency risk

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

	September 30, 2022			December 31, 2021			September 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	443,295	31.750	14,074,628	482,969	27.680	13,368,578	414,263	27.850	11,537,238
<u>Non-Monetary items</u>									
CNY	882,278	4.473	3,946,428	815,300	4.340	3,538,401	756,939	4.305	3,258,621
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	234,947	31.750	7,459,582	283,113	27.680	7,836,557	174,829	27.850	4,868,987

(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 September 30, 2022, December 31, 2021, and September 30, 2021, would have increased or decreased the net profit before income tax for the nine months ended September 30, 2022 and 2021 by \$330,752 thousand and \$333,413 thousand, respectively. The analysis was performed on the same basis for comparative years.

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(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 September 30,		For the nine months ended September 30,	
2022	2021	2022	2021
\$ 517,722	50,369	1,041,691	(36,312)

(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 nine months ended September 30, 2022 and 2021 would have increased by \$12,497 thousand and \$10,635 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents, short-term and long-term borrowings.

(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 nine months ended September 30, 2022 and 2021 would have increased or decreased by \$106,328 thousand and \$156,823 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 nine months ended September 30, 2022 and 2021 would have increased or decreased by \$38,935 thousand and \$57,286 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

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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 September 30, 2022, December 31, 2021, and September 30, 2021, 26%, 40% and 36%, respectively, of accounts receivable 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.

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.

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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>
September 30, 2022					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 17,144,402	(17,144,402)	(15,234,992)	(1,908,328)	(1,082)
Lease liabilities (current and non-current)	141,145	(143,267)	(43,443)	(99,824)	-
Bonds payable	3,434,652	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	172,616	(182,122)	(34,140)	(136,599)	(11,383)
Fixed interest rate liabilities	<u>30,000</u>	<u>(30,063)</u>	<u>(30,063)</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,922,815</u>	<u>(20,999,854)</u>	<u>(15,342,638)</u>	<u>(5,644,751)</u>	<u>(12,465)</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>
September 30, 2021					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 13,765,731	(13,765,731)	(13,762,704)	(3,027)	-
Lease liabilities (current and non-current)	35,919	(36,444)	(22,703)	(13,741)	-
Floating interest rate liabilities	203,300	(213,237)	(33,669)	(134,676)	(44,892)
Fixed interest rate liabilities	<u>1,583,395</u>	<u>(1,585,602)</u>	<u>(1,585,602)</u>	<u>-</u>	<u>-</u>
	<u>\$ 15,588,345</u>	<u>(15,601,014)</u>	<u>(15,404,678)</u>	<u>(151,444)</u>	<u>(44,892)</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;
- 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

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- 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:

	September 30, 2022			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 631,326	-	-	631,326
Domestic unlisted stocks	-	-	162,184	162,184
Foreign unlisted stocks	-	-	116,408	116,408
Domestic private equity funds	-	-	42,824	42,824
Beneficiary certificates—open-end funds	110,542	-	-	110,542
	<u>\$ 741,868</u>	<u>-</u>	<u>321,416</u>	<u>1,063,284</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	190,944	190,944
Foreign unlisted stocks	-	-	198,406	198,406
	<u>\$ -</u>	<u>-</u>	<u>389,350</u>	<u>389,350</u>
	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
	<u>\$ 1,202,054</u>	<u>-</u>	<u>456,469</u>	<u>1,658,523</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	294,433	294,433
Foreign unlisted stocks	-	-	340,324	340,324
	<u>\$ -</u>	<u>-</u>	<u>634,757</u>	<u>634,757</u>

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	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 658,056	-	-	658,056
Domestic unlisted stocks	-	-	299,168	299,168
Foreign unlisted stocks	-	-	96,938	96,938
Domestic private equity funds	-	-	40,325	40,325
Beneficiary certificates— open-end funds	473,741	-	-	473,741
	<u>\$ 1,131,797</u>	<u>-</u>	<u>436,431</u>	<u>1,568,228</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	208,510	208,510
Foreign unlisted stocks	-	-	364,350	364,350
	<u>\$ -</u>	<u>-</u>	<u>572,860</u>	<u>572,860</u>

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

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

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	Total
	Private equity funds	Derivative instruments— convertible bonds	Equity instruments	Equity instruments	
January 1, 2022	\$ 39,909	4,900	411,660	634,757	1,091,226
Recognized in profit or loss	2,915	(4,900)	(128,188)	-	(130,173)
Recognized in other comprehensive income	-	-	-	(160,619)	(160,619)
Additions for the period	-	-	2,395	28,494	30,889
Disposal and proceeds from capital reduction	-	-	(7,275)	(113,282)	(120,557)
September 30, 2022	<u>\$ 42,824</u>	<u>-</u>	<u>278,592</u>	<u>389,350</u>	<u>710,766</u>
January 1, 2021	\$ 42,033	-	395,203	360,304	797,540
Recognized in profit or loss	(1,708)	-	44,889	-	43,181
Recognized in other comprehensive income	-	-	-	107,551	107,551
Additions for the period	-	-	3,338	105,005	108,343
Disposal and proceeds from capital reduction	-	-	(15,300)	-	(15,300)
Transfers out from level 3	-	-	(32,024)	-	(32,024)
September 30, 2021	<u>\$ 40,325</u>	<u>-</u>	<u>396,106</u>	<u>572,860</u>	<u>1,009,291</u>

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(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 (September 30, 2022: 8.16%~30%, December 31, 2021: 15%~28.97% and September 30, 2021: 15%~29.67%) 	<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 (September 30, 2022: 2.5%, December 31, 2021: 2.5% and September 30, 2021: 2.88%) · Weighted-average cost of capital (September 30, 2022: 7.02%~9.59%, December 31, 2021: 7.02%~9.59% and September 30, 2021: 14.18%~15.18%) · Discount for lack of marketability (September 30, 2022, December 31, 2021 and September 30, 2021: 15%) · Discount for non-controlling interest (September 30, 2022, December 31, 2021 and September 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

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<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 (September 30, 2022, December 31, 2021 and September 30, 2021: 10%) · Discount for non-controlling interest (September 30, 2022, December 31, 2021 and September 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 September 30, 2022 and December 31, 2021, was 37.71% 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).

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

	January 1, 2022	Cash flows	Foreign exchange movement and others	September 30, 2022
Short-term borrowings	\$ 439,216	(412,995)	3,779	30,000
Bonds payable	3,412,855	-	21,797	3,434,652
Long-term borrowings (including current portion)	195,636	(23,020)	-	172,616
Lease liabilities (current and non-current)	40,030	(35,938)	137,053 (Note)	141,145
Guarantee deposits received (current and non-current)	4,109	2,488,752	369,720	2,862,581
Total liabilities from financing activities	<u>\$ 4,091,846</u>	<u>2,016,799</u>	<u>532,349</u>	<u>6,640,994</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	September 30, 2021
Short-term borrowings	\$ 1,480,480	96,670	6,245	1,583,395
Long-term borrowings (including current portion)	226,122	(22,822)	-	203,300
Lease liabilities (current and non-current)	32,632	(15,305)	18,592	35,919
Guarantee deposits received	4,986	(1,959)	-	3,027
Total liabilities from financing activities	<u>\$ 1,744,220</u>	<u>56,584</u>	<u>24,837</u>	<u>1,825,641</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

Phison Electronics Corp. and subsidiaries
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<u>Name of related party</u>	<u>Relationship with the Group</u>
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
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
UD INFO Corp.	Beginning on August 1, 2022, it became a subsidiary of Apacer Technology Inc.
ONE UPON Co. Ltd.	The Company's director is its chairman
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 September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Associates	\$ 1,240,433	2,273,058	5,175,345	4,249,037
Other related parties	<u>735,065</u>	<u>695,966</u>	<u>2,451,747</u>	<u>2,111,221</u>
	<u>\$ 1,975,498</u>	<u>2,969,024</u>	<u>7,627,092</u>	<u>6,360,258</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.

Phison Electronics Corp. and subsidiaries
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B. Purchase of goods and processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Associates	\$ (3,655)	20,284	(3,655)	182,448
Other related parties – Kioxia Taiwan Company	<u>2,507,732</u>	<u>3,869,877</u>	<u>10,434,234</u>	<u>10,928,322</u>
	<u>\$ 2,504,077</u>	<u>3,890,161</u>	<u>10,430,579</u>	<u>11,110,770</u>

(b) Processing costs

<u>Related Party Category / Name</u>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Other related parties	<u>\$ 615,581</u>	<u>743,423</u>	<u>1,903,526</u>	<u>1,853,455</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>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Associates – Hosin Global Electronics Co., Ltd. (HK)	\$ 453,428	1,614,392	1,287,813
Associates	548,612	553,795	612,255
Other related parties	<u>612,707</u>	<u>652,856</u>	<u>568,741</u>
	1,614,747	2,821,043	2,468,809
Less: Loss allowance	<u>(9,173)</u>	<u>(7,519)</u>	<u>-</u>
	<u>\$ 1,605,574</u>	<u>2,813,524</u>	<u>2,468,809</u>

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

<u>Related Party Category / Name</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Associates	\$ -	-	43,335
Other related parties – Kioxia Taiwan Company	2,053,361	2,764,162	1,347,331
Other related parties	<u>227,743</u>	<u>436,145</u>	<u>295,115</u>
	<u>\$ 2,281,104</u>	<u>3,200,307</u>	<u>1,685,781</u>

Phison Electronics Corp. and subsidiaries
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E. Other transactions

<u>Account Name</u>	<u>Related Party Category / Name</u>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Operating costs	Other related parties	\$ <u>1,005</u>	<u>38</u>	<u>3,714</u>	<u>804</u>
Operating expenses	Associates	\$ 67,493	64,744	197,231	195,170
	Other related parties	<u>1,373</u>	<u>1,554</u>	<u>6,093</u>	<u>8,547</u>
		<u>\$ 68,866</u>	<u>66,298</u>	<u>203,324</u>	<u>203,717</u>
Non-operating incomes	Associates	\$ 446	248	997	985
	Other related parties (note)	<u>13,629</u>	<u>21,481</u>	<u>44,276</u>	<u>21,681</u>
		<u>\$ 14,075</u>	<u>21,729</u>	<u>45,273</u>	<u>22,666</u>

Note: The related parties distributed \$36,381 thousand and \$20,301 thousand cash dividend to the Group for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and 2021, the aforementioned dividend had been received.

As of September 30, 2022, December 31, 2021, and September 30, 2021, the receivables arising from abovementioned transactions were \$309 thousand, \$26,512 thousand and \$748 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$56,215 thousand, \$54,392 thousand and \$53,008 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 September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Short-term employee benefits	\$ 63,957	166,299	357,957	381,931
Post-employment benefits	343	522	1,464	1,582
Share-based payments	<u>5,751</u>	<u>19,684</u>	<u>34,519</u>	<u>62,962</u>
	<u>\$ 70,051</u>	<u>186,505</u>	<u>393,940</u>	<u>446,475</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	September 30, 2022	December 31, 2021	September 30, 2021
Property, plant and equipment	As collateral for loans and finance facilities	\$ 521,103	530,694	533,891
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	<u>40,499</u>	<u>40,459</u>	<u>40,459</u>
		<u>\$ 561,602</u>	<u>571,153</u>	<u>574,350</u>

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

	September 30, 2022	December 31, 2021	September 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:

	September 30, 2022	December 31, 2021	September 30, 2021
	<u>\$ -</u>	<u>373,455</u>	<u>582,112</u>

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

C. In order to receive the research project grant, the Company obtain a performance guarantee letter from the bank as follows:

September 30,
2022
\$ 26,400

(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 September 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. As of September 30, 2022, the guarantee deposits received were classified as current liabilities of \$952,500 thousand (recognized as other current liabilities) and non-current liabilities of \$1,905,000 thousand (recognized as guarantee deposits received) based on the expected repayment period.

10. Losses due to major disasters: None

11. Subsequent events: None

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 September 30,					
		2022			2021		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		249,981	1,513,569	1,763,550	142,956	1,775,504	1,918,460
Labor and health insurance		22,794	95,318	118,112	14,369	67,183	81,552
Pension		10,028	50,781	60,809	5,959	36,044	42,003
Others		11,591	39,597	51,188	10,695	34,354	45,049
Depreciation		55,202	117,641	172,843	37,440	83,058	120,498
Amortization		509	102,476	102,985	140	67,465	67,605

Phison Electronics Corp. and subsidiaries
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By item	By function	For the nine months ended September 30,					
		2022			2021		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		719,179	5,681,782	6,400,961	415,567	5,102,341	5,517,908
Labor and health insurance		65,732	281,170	346,902	41,897	195,788	237,685
Pension		27,511	137,819	165,330	17,049	97,414	114,463
Others		34,517	116,842	151,359	30,756	93,496	124,252
Depreciation		148,624	331,939	480,563	105,317	236,131	341,448
Amortization		1,559	272,933	274,492	422	189,310	189,732

- (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 September 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 nine months ended September 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 ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.

Phison Electronics Corp. and subsidiaries
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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 September 30, 2022 (excluding investment in subsidiaries, associates and joint ventures)
September 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>Common shares</u>							
	Apacer Technology Inc.	-	Financial assets at fair value through profit or loss – current	12,555	488,373	11.24	488,373	
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	119,583	0.89	119,583	
	Acer Synergy Tech Corp.	-	Same as above	600	<u>23,370</u>	3.00	23,370	
					<u>631,326</u>			
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	5,355	102,689	11.11	102,689	
	Taishan Buffalo Investment Co., Ltd.	-	Same as above	46,300	42,759	1.08	42,759	
	Innorich Venture Capital Corp.	-	Same as above	3,000	16,736	5.61	16,736	
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	<u>15,233</u>	0.67	15,233	
					<u>177,417</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	160,920	17.16	160,920	
	AppWorks Fund III Co., Ltd.	-	Same as above	8,735	73,089	2.92	73,089	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	21,392	19.00	21,392	
	Gomore Inc.	-	Same as above	16,925	9,920	1.86	9,920	
	H3 Platform, Inc.	-	Same as above	18,400	5,454	12.14	5,454	
	Gospal Ltd.	-	Same as above	811,857	4,159	3.19	4,159	
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.66	-	
	GeoThings, Inc.	-	Same as above	150	-	3.13	-	
	Ironyun Incorporated	-	Same as above	5,000	-	3.76	-	
						<u>274,934</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>42,824</u>	3.81	42,824	
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	61,409	1.18	61,409	
	Translink Capital Partners IV L.P.	-	Same as above	870	<u>39,766</u>	0.59	39,766	
					<u>101,175</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	248	4.76	248	
	Translink Capital Partners V, L.P.	-	Same as above	600	17,705	2.52	17,705	
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	25,000	19,926	3.19	19,926	
	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	25,756	25,756	5.13	25,756	
	Omni Media International Incorporation	-	Same as above	1,714	10,491	2.60	10,491	
	UMBO CV INC. (preference shares)	-	Same as above	1,626	-	2.34	-	
					<u>104,126</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	30,156	-	30,156	
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,097	-	20,097	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,100	-	20,100	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,096	-	20,096	
	Capital Money Market Fund	-	Same as above	1,229	<u>20,093</u>	-	20,093	
					<u>110,542</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>10,290</u>	12.53	10,290	

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 nine months ended September 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	Full payment	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 nine months ended September 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	10,434,234	36	Net 30 days after monthly closing	None	None	(2,053,361)	(45)	
	Orient Semiconductor Electronics, Ltd.	The Company is its director	Processing cost	1,903,526	6	Net 30 days after monthly closing	None	None	(227,743)	(5)	
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	336,508	1	Net 30 days after monthly closing	None	None	(45,522)	(1)	Note 2
	Kioxia Corporation	The Company's director	Sales	(1,243,050)	(3)	Net 60 days after monthly closing	None	None	325,002	4	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(194,445)	-	Net 60 days after monthly closing	None	None	10,381	-	

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	(869,930)	(2)	Net 45 days after monthly closing	None	None	203,026	2	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	Sales	(1,764,444)	(4)	Net 7~30 days after receipt date and Net 45 days after monthly closing	None	None	487,376	6	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(135,379)	-	Net 45 days after receipt date and Net 60 days after receipt date	None	None	20,369	-	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(2,983,528)	(6)	Net 45 days after monthly closing	None	None	451,977	5	
	Nextorage Corporation	Subsidiary	Sales	(410,255)	(1)	Net 60 days after monthly closing	None	None	94,092	1	Note 2
	ProGrade Digital Inc.	Associate	Sales	(264,603)	(1)	Net 30 days after receipt date	None	None	29,709	-	

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
September 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	203,026	5.72	-	-	116,331	652	
	Kioxia Corporation	The Company's director	325,002	5.27	-	-	-	1,043	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	487,376	6.13	-	-	249,921	1,565	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	451,977	3.86	-	-	-	1,451	

Note 1: Information as of October 26, 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 nine months ended September 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	27,394	General trading terms	0.06
		Super Storage Technology Corporation	1	Processing cost	336,508	General trading terms	0.70
			1	Manufacturing cost	10,839	General trading terms	0.02
			1	Accounts payable	45,522	General trading terms	0.08
			1	Right-of-use assets	13,859	General trading terms	0.02
			1	Lease liabilities	13,614	General trading terms	0.02
		Phison Technology Inc.	1	Marketing expenses	247,962	General trading terms	0.52
			1	Other payables	29,620	General trading terms	0.05
		Nextorage Corporation	1	Sales	410,255	General trading terms	0.86
			1	Accounts receivable	94,092	General trading terms	0.16
		Phison Electronics Japan Corp.	1	Marketing expenses	12,991	General trading terms	0.03
		Power Storage Technology (Shenzhen) Limited	1	Marketing expenses	18,512	General trading terms	0.04
			1	Other payables	12,038	General trading terms	0.02

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 nine months ended September 30, 2022

Table 6

(Amounts in Thousands)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2022			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				September 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	3,079,403	(243,052)	(243,052)	Subsidiary and note 4
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	1,353,239	(161,081)	(161,081)	Subsidiary and note 4
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	581,363	55,000,000	100.00	695,929	32,791	32,620	Subsidiary and note 4
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	500,457	19,133	19,133	Subsidiary and note 4
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	191,847	2,800	854	Investee accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	386,207	8,723	8,723	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	425,528	153,972	153,972	Subsidiary, notes 2 and 4
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	150,918	1,102	1,102	Subsidiary and note 4
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	30.27	131,226	66,264	20,058	Investee accounted for using the equity method

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2022			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				September 30, 2022	December 31, 2021	Shares	Percentage of Ownership (%)	Carrying Value			
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	-	-	-	(4,051)	(4,051)	Subsidiary, note 3 and 4
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	27,686	982	982	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	26,622	6,816	3,340	Investee accounted for using the equity method
								<u>6,969,062</u>		<u>(167,400)</u>	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	28,691	(280)	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	120,587	4,516	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	574,484	32,688	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	3,065,941	(245,312)	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	99,614	592	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	1,374,725	(161,257)	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 was completed in July 2022.

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 nine months ended September 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 September 30, 2022	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of September 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	(39,636)	100.00	(39,636)	109,978	-	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)	-	-	-	-	(163,438)	24.23	(39,610)	95,881	-	-
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,749,108	2(1) and 2(2)	442,780	-	-	442,780	(934,592)	40.16	(385,306)	3,850,547	-	-
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	(126)	100.00	(126)	44,603	-	Note 3

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of September 30, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 2)
669,125	1,380,908	22,007,112

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.