

Phison Electronics Corp. and Subsidiaries
Consolidated Financial Statements
With Independent Auditors' Report
For the Years Ended December 31, 2022 and 2021

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

The independent auditors' 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' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~10
(4) Summary of significant accounting policies	10~26
(5) Critical accounting judgments and key sources of estimations and assumptions uncertainty	26~27
(6) Description of significant accounts	27~67
(7) Related-party transactions	67~70
(8) Pledged assets	70
(9) Commitments and contingencies	70~71
(10) Losses due to major disasters	71
(11) Subsequent events	71
(12) Other	72
(13) Addition disclosures	
(a) Information on significant transactions	72~73、76~84
(b) Information on investees (excluding information on investees in Mainland China)	73、85~87
(c) Information on investment in Mainland China	73、88~89
(d) Information of major shareholder	74
(14) Segment information	74~75

Representation Letter

The entities that are required to be included in the combined financial statements of Phison Electronics Corp. as of and for the year ended December 31, 2022 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements. " endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Phison Electronics Corp. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Phison Electronics Corp.
Chairman: Wee-Kuan Gan
Date: March 15, 2023



安侯建業聯合會計師事務所

KPMG

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

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

Independent Auditors' Report

To the Board of Directors of Phison Electronics Corp.:

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) and the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Account of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgment, the key audit matters that should be disclosed in this report are as follows:

1. Revenue recognition

Please refer to Note 4(14) “Summary of significant accounting policies—Revenue recognition”, Note 6(23)) “Description of significant accounts—Operating revenue” to the consolidated financial statements.



Description of key audit matter:

The Group engaged primarily in the sale of flash memory controllers and peripheral system applications. Revenue is recognized depending on the various trade terms agreed with customers. This exposes the Group to the risk that the sales transactions made close to the balance sheet date may not be recorded in the appropriate period. In addition, the Group operates in an industry in which sales revenue is easily influenced by various external factors such as supply and demand of the market, and this may impact the recognition of revenue. Consequently, this is one of the key areas that our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and evaluating the effectiveness of the design and performing internal controls over the timing of revenue recognition; sample testing on sales transaction that took place before and after the balance sheet date to assess the accuracy of the timing of revenue recognition; and assessing the adequacy of the Group's disclosures of its revenue recognition policy and other related disclosures.

2. Valuation of inventories

Please refer to Note 4(8) "Summary of significant accounting policies—Inventories", Note 5 "Critical Accounting Judgments and Key Sources of Estimations and Assumptions Uncertainty", and Note 6(7) "Description of significant accounts—Inventories" to the consolidated financial statements.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological innovations and highly competitive environment in the industry of the Group, the life cycles of products of the Group are short and the prices fluctuate rapidly, which could possibly result in a price decline and obsolescence of inventory, wherein the inventory cost may exceed its net realizable value. Consequently, this is one of the key areas that our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the aging report of inventory and analyzing the fluctuation of inventory aging; on a sample basis, verifying the accuracy of the net realizable value of inventories and the inventory aging report; assessing the historical reasonableness of management's estimates on inventory provisions; and evaluating whether valuation of inventories was accounted in accordance with the Group's accounting policies and assessing the adequacy of the Group's disclosures of its policy and other related disclosures.

Other Matter

Phison Electronics Corp. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2022 and 2021, on which we have issued an unmodified opinion and an unmodified opinion with other matter paragraph, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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 with the IFRSs, IASs, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the audit committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 15, 2023

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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' audit 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' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries
Consolidated Balance Sheets
December 31, 2022 and 2021
(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2022		December 31, 2021				December 31, 2022		December 31, 2021	
		Amount	%	Amount	%			Amount	%		
Assets						Liabilities and Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(1))	\$ 17,033,769	29	19,040,947	30	2100	Short-term borrowings (notes 6(13) and 8)	\$ -	-	439,216	1
1110	Financial assets at fair value through profit or loss— current (note 6(2))	785,022	1	1,206,954	2	2130	Contract liabilities— current	146,323	-	203,044	-
1136	Financial assets at amortized cost— current (notes 6(3) and 8)	40,499	-	568,694	1	2170	Accounts payable	5,600,107	9	5,836,376	10
1170	Accounts receivable, net (note 6(5))	6,037,722	10	5,915,737	9	2180	Accounts payable— related parties (note 7)	578,866	1	3,200,307	5
1180	Accounts receivable— related parties, net (notes 6(5) and 7)	1,199,073	2	2,813,524	4	2200	Other payables (note 6(14))	8,939,128	15	9,821,146	16
1200	Other receivables (notes 6(6) and 7)	333,902	1	623,912	1	2230	Tax payable	530,960	1	1,223,434	2
1220	Tax assets	3,497	-	2,905	-	2280	Lease liabilities— current (note 6(11))	46,250	-	24,027	-
130X	Inventories (note 6(7))	20,390,375	34	19,496,534	31	2320	Long-term borrowings, current portion (note 6(16))	31,050	-	30,947	-
1410	Prepayments	69,271	-	24,967	-	2399	Other current liabilities (notes 6(15), 7 and 9(3))	1,726,407	3	1,048,696	2
1479	Other current assets	1,455	-	2,413	-			17,599,091	29	21,827,193	36
		<u>45,894,585</u>	<u>77</u>	<u>49,696,587</u>	<u>78</u>						
Non-current assets:						Non-Current liabilities:					
1510	Financial assets at fair value through profit or loss— non-current (note 6(2))	317,347	-	451,569	1	2530	Bonds payable (note 6(17))	3,442,031	6	3,412,855	5
1517	Financial assets at fair value through other comprehensive income— non-current (note 6(4))	431,697	1	634,757	1	2540	Long-term borrowings (note 6(16))	133,882	-	164,689	-
1550	Investments accounted for using the equity method (note 6(8))	3,693,963	6	4,155,042	7	2570	Deferred tax liabilities (note 6(19))	56,206	-	183,177	-
1600	Property, plant and equipment (notes 6(10), 7 and 8)	7,597,761	13	6,650,562	11	2580	Lease liabilities— non-current (note 6(11))	85,526	-	16,003	-
1755	Right-of-use assets (note 6(11))	130,076	-	39,276	-	2640	Net defined benefit liabilities (note 6(18))	114,798	-	104,897	-
1780	Intangible assets (note 6(12))	375,336	1	314,671	-	2645	Guarantee deposits received (note 9(3))	926,480	2	4,109	-
1840	Deferred tax assets (note 6(19))	889,157	1	495,193	1			4,758,923	8	3,885,730	5
1900	Other non-current assets (note 9(2))	659,914	1	583,700	1			22,358,014	37	25,712,923	41
		<u>14,095,251</u>	<u>23</u>	<u>13,324,770</u>	<u>22</u>						
							Total liabilities				
							Equity (notes 6(20) and (21)):				
						3100	Common shares	1,986,745	3	1,970,740	3
						3200	Capital surplus	8,970,438	15	7,238,436	12
						3300	Retained earnings	28,952,665	48	27,995,974	44
						3400	Other equity interest	(216,810)	-	103,284	-
						3500	Treasury shares	(2,061,216)	(3)	-	-
							Total equity	37,631,822	63	37,308,434	59
							Total liabilities and equity	\$ <u>59,989,836</u>	<u>100</u>	<u>63,021,357</u>	<u>100</u>
	Total assets	<u>\$ 59,989,836</u>	<u>100</u>	<u>63,021,357</u>	<u>100</u>						

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2022 and 2021

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

		2022		2021	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue (notes 6(23) and 7)	\$ 60,256,142	100	62,557,192	100
5000	Operating costs (notes 6(7), (24) and 7)	<u>42,923,527</u>	<u>71</u>	<u>43,402,812</u>	<u>69</u>
	Gross profit from operations	17,332,615	29	19,154,380	31
5910	Unrealized profit on transactions with associates	<u>17,277</u>	<u>-</u>	<u>(54,596)</u>	<u>-</u>
5950	Realized gross profit	<u>17,349,892</u>	<u>29</u>	<u>19,099,784</u>	<u>31</u>
	Operating expenses (notes 6(24) and 7):				
6100	Marketing expenses	1,268,136	2	1,034,735	2
6200	General and administrative expenses	1,044,298	2	846,159	1
6300	Research and development expenses	8,130,501	14	8,127,841	13
6450	Expected credit loss (note 6(5))	<u>63,035</u>	<u>-</u>	<u>6,600</u>	<u>-</u>
	Total operating expenses	<u>10,505,970</u>	<u>18</u>	<u>10,015,335</u>	<u>16</u>
	Net operating income	<u>6,843,922</u>	<u>11</u>	<u>9,084,449</u>	<u>15</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(25) and 7)	201,479	-	156,060	-
7020	Other gains and losses (notes 6(9) and (25))	509,327	1	187,831	-
7050	Finance costs (note 6(25))	(35,783)	-	(19,006)	-
7100	Interest income (note 6(25))	97,143	-	37,546	-
7060	Shares of profit (loss) of associates accounted for using the equity method (note 6(8))	<u>(1,319,168)</u>	<u>(2)</u>	<u>290,734</u>	<u>-</u>
		<u>(547,002)</u>	<u>(1)</u>	<u>653,165</u>	<u>-</u>
7900	Profit before tax	6,296,920	10	9,737,614	15
7950	Income tax expenses (note 6(19))	<u>895,774</u>	<u>1</u>	<u>1,590,399</u>	<u>2</u>
8200	Net profit for the year	<u>5,401,146</u>	<u>9</u>	<u>8,147,215</u>	<u>13</u>
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(8,356)	-	(354)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26))	(181,391)	-	99,481	-
8320	Shares of other comprehensive income of associates accounted for using the equity method	(214,605)	-	287,188	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(19))	<u>1,671</u>	<u>-</u>	<u>71</u>	<u>-</u>
	Total items that will not be reclassified subsequently to profit or loss	<u>(402,681)</u>	<u>-</u>	<u>386,386</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	177,651	-	(106,472)	-
8399	Income tax related to items that may be reclassified subsequently (note 6(19))	<u>(6,817)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total items that may be reclassified subsequently to profit or loss	<u>170,834</u>	<u>-</u>	<u>(106,472)</u>	<u>-</u>
8300	Other comprehensive income	<u>(231,847)</u>	<u>-</u>	<u>279,914</u>	<u>-</u>
8500	Total comprehensive income	<u>\$ 5,169,299</u>	<u>9</u>	<u>8,427,129</u>	<u>13</u>
	Earnings per share (New Taiwan Dollars) (note 6(22)):				
9750	Basic earnings per share	<u>\$ 27.71</u>		<u>41.34</u>	
9850	Diluted earnings per share	<u>\$ 26.06</u>		<u>40.09</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	Share capital			Retained earnings				Exchange differences on translation of foreign financial statements	Total other equity interest		Treasury shares	Total equity	
	Common shares	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings		Total	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income			Total
Balance at January 1, 2021	\$ 1,970,740	-	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 year	-	-	-	-	-	-	8,147,215	8,147,215	-	-	-	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(283)	(283)	(106,472)	386,669	280,197	-	279,914
Total comprehensive income (loss) for the year	-	-	-	-	-	-	8,146,932	8,146,932	(106,472)	386,669	280,197	-	8,427,129
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	-	-	-	268,525	-	-	(422,983)	(422,983)	-	-	-	-	(154,458)
Share-based payments	-	-	-	281,369	-	-	-	-	-	-	-	-	281,369
Due to recognition of equity component of convertible bonds issued	-	-	-	102,369	-	-	-	-	-	-	-	-	102,369
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	11,572	11,572	-	(11,572)	(11,572)	-	-
Balance at December 31, 2021	<u>1,970,740</u>	<u>-</u>	<u>1,970,740</u>	<u>7,238,436</u>	<u>5,530,308</u>	<u>155,568</u>	<u>22,310,098</u>	<u>27,995,974</u>	<u>(143,563)</u>	<u>246,847</u>	<u>103,284</u>	<u>-</u>	<u>37,308,434</u>
Net profit for the year	-	-	-	-	-	-	5,401,146	5,401,146	-	-	-	-	5,401,146
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	(6,685)	170,834	(395,996)	(225,162)	-	(231,847)
Total comprehensive income for the year	-	-	-	-	-	-	5,394,461	5,394,461	170,834	(395,996)	(225,162)	-	5,169,299
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	-	-	-	1,012,124	-	-	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	(2,061,216)	(2,061,216)
Share-based payments	-	-	-	360,211	-	-	-	-	-	-	-	-	360,211
Exercise of employee share options	-	16,005	16,005	359,667	-	-	-	-	-	-	-	-	375,672
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	94,932	-	(94,932)	(94,932)	-	-
Balance at December 31, 2022	<u>\$ 1,970,740</u>	<u>16,005</u>	<u>1,986,745</u>	<u>8,970,438</u>	<u>6,347,501</u>	<u>-</u>	<u>22,605,164</u>	<u>28,952,665</u>	<u>27,271</u>	<u>(244,081)</u>	<u>(216,810)</u>	<u>(2,061,216)</u>	<u>37,631,822</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	2022	2021
Cash flows from operating activities:		
Profit before income tax	\$ 6,296,920	9,737,614
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	650,774	470,642
Amortization expense	395,794	271,835
Expected credit loss	63,035	6,600
Net loss (gain) on financial assets at fair value through profit or loss	276,636	(266,703)
Finance costs	35,783	19,006
Gain on disposal of property, plant and equipment	(136)	-
Interest income	(97,143)	(37,546)
Dividend income	(90,937)	(95,052)
Share-based payments	360,211	281,369
Shares of loss (profit) of associates accounted for using the equity method	1,319,168	(290,734)
Loss (gain) on disposal of investments accounted for using the equity method	(30,426)	272
Unrealized profit (loss) on transactions with associates	(17,277)	54,596
Unrealized foreign exchange loss (gain)	(268,849)	31,423
Inventory obsolescence loss	1,711,889	135,888
Recognition (reversal) of refund liabilities	(111,852)	555,242
Profit from lease modification	(191)	(6)
Gain recognized in bargain purchase transaction	(16,289)	-
Total adjustments to reconcile profit (loss)	4,180,190	1,136,832
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	1,786,146	(2,748,366)
Other receivables	332,124	(314,156)
Inventories	(2,497,889)	(9,490,943)
Prepayments	(44,304)	49,250
Other current assets	1,759	30,802
Contract liabilities	(56,721)	167,491
Accounts payable (including related parties)	(3,197,533)	5,605,507
Other payables	(1,041,547)	1,830,736
Other current liabilities	(121,388)	(169,088)
Net defined benefit liabilities	1,545	1,015
Total changes in operating assets and liabilities	(4,837,808)	(5,037,752)
Cash inflow generated from operations	5,639,302	5,836,694
Interest paid	(6,980)	(19,143)
Income taxes paid	(2,060,606)	(720,321)
Net cash flows from operating activities	3,571,716	5,097,230

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(95,113)	(174,972)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	16,150	-
Acquisition of financial assets at amortized cost	(40)	(3,652,682)
Proceeds from disposal of financial assets at amortized cost	547,960	3,407,878
Acquisition of financial assets at fair value through profit or loss	(4,265)	(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	21,450
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	(1,528,412)	(2,340,904)
Proceeds from disposal of property, plant and equipment	5,040	-
Increase in refundable deposits	(14,550)	(514,336)
Acquisition of intangible assets	(451,643)	(272,624)
Decrease (increase) in prepayments for equipment	1,177	(50,038)
Interest received	96,089	36,777
Dividends received	90,937	166,365
Net cash flows from (used in) investing activities	<u>(976,499)</u>	<u>1,199,152</u>
Cash flows from financing activities:		
Increase in short-term loans	1,967,656	7,822,390
Decrease in short-term loans	(2,410,651)	(8,866,888)
Repayments of long-term borrowings	(30,704)	(30,486)
Proceeds from issuing bonds (excluding issuance costs)	-	3,511,309
Increase (decrease) in guarantee deposits received	1,659,591	(877)
Payment of lease liabilities	(47,989)	(21,392)
Cash dividends paid	(4,532,738)	(4,532,702)
Exercise of employee share options	375,672	-
Payments to acquire treasury shares	(2,061,216)	-
Net cash flows used in financing activities	<u>(5,080,379)</u>	<u>(2,118,646)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>477,984</u>	<u>(97,911)</u>
Net increase (decrease) in cash and cash equivalents	(2,007,178)	4,079,825
Cash and cash equivalents at beginning of period	<u>19,040,947</u>	<u>14,961,122</u>
Cash and cash equivalents at end of period	<u>\$ 17,033,769</u>	<u>19,040,947</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 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 March 15, 2023.

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 IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IFRS16 “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

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all the periods presented in the consolidated financial statements.

- (1) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to as “IFRSs endorsed by the FSC”).

- (2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) Financial assets measured at fair value through other comprehensive income are measured at fair value;
- (c) The defined benefit liabilities (assets) are measured at the fair value of the plan assets less the present value of the defined benefit obligation.

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

B. Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company's functional currency. Unless otherwise noted, all financial information presented in NTD has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries, which are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the Company.

When the Group loses control over a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any interest retained in the former subsidiary is re-measured at fair value when control is lost, with the resulting gain or loss being recognized in profit or loss. The Group recognizes as gain or loss in profit or loss the difference between (i) the fair value of the consideration received as well as any investment retained in the former subsidiary at its fair value at the date when control is lost; and (ii) the assets (including any goodwill), liabilities of the subsidiary as well as any related non-controlling interests at their carrying amounts at the date when control is lost, as gain or loss in profit or loss. When the Group loses control of its subsidiary, it accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if it had directly disposed of the related assets or liabilities.

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

B. List of subsidiaries in the consolidated financial statements

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

<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding (%)</u>		<u>Note</u>
			<u>December 31, 2022</u>	<u>December 31, 2021</u>	
The Company	Lian Xu Dong Investment Corporation	Investment	100	100	
The Company	Phison Electronics Japan Corp.	Sales and service office	100	100	
The Company	Emtops Electronics Corp.	Investment	100	100	
The Company	Phisontech Electronics Taiwan Corp.	Investment and trade	100	100	
The Company	Global Flash Limited	Investment and trade	100	100	
The Company	Power Flash (Samoa) Limited	Investment and trade	100	100	
The Company	Everspeed Technology Limited	Trade of electronic components	-	100	Note 1
The Company	Regis Investment (Samoa) Limited	Investment	100	100	
The Company	Nextorage Corporation	R&D, design, manufacture and sale of flash memory application products	100	49	Note 2
The Company	Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	100	-	Note 3
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100	100	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100	100	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	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 4
Everspeed Technology Limited	Memoryexchange Corporation	Manufacture and sale of flash memory related products	-	-	Note 5

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

<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding (%)</u>		<u>Note</u>
			<u>December 31, 2022</u>	<u>December 31, 2021</u>	
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100	100	
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	100	100	
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100	100	
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	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 Phison Technology India Private Limited in India in December 2022, wherein the Company and Emtops Electronics Corp. held 2,299,990 shares and 10 shares, respectively, in it.

Note 4: For operation needs, the Company set up Power Storage Technology (Shenzhen) Limited in Shenzhen, Mainland China, in January 2022.

Note 5: Memoryexchange Corporation ended its operations in March 2021, and was liquidated in March 2022.

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

(4) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and its foreign operations are translated into the presentation currency, the NTD as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income. On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(5) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- A. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting period; or
- D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- A. It is expected to be settled in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is due to be settled within twelve months after the reporting period; or
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash comprises cash on hand, check deposits and demand deposits. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

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

(7) Financial instruments

Accounts receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The Group classifies financial assets into the following categories: financial assets at amortized cost, investments in equity instruments at financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. Only when the Group changes its business model for managing financial assets it shall reclassify all affected financial assets.

(a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are initially recognized at fair value, plus any directly attributable transaction costs. Subsequently, these assets are measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses, and recognition (reversal) of impairment losses, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. Purchases or sales of financial assets in trade practice are recognized and derecognized on a trade date basis.

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

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

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity will not be reclassified to profit or loss, instead, is reclassified to retained earnings. Dividend income derived from equity investments is recognized in profit or loss on the date on which the Group's right to receive payment is established.

(c) Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets.

On initial recognition, these assets are measured at fair value. Net gains and losses, including any interest or dividend income and gains and losses of remeasurement, are recognized in profit or loss.

(d) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including accounts receivable).

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For other financial assets, when the credit risk has not increased significantly since initial recognition, 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. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events over the expected life of the financial instruments.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. The portion of expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date are 12-month expected credit losses. Lifetime expected credit losses are the expected credit losses that arise if debtors default on their obligations at some time during the life of a financial instrument.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- (i) Internal or external information shows that the debtor is unlikely to pay its creditors.
- (ii) When a financial asset is overdue unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

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

(e) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(b) Equity instruments

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(c) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(d) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(e) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

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

(f) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(8) Inventories

The cost of inventories includes all necessary expenditures and charges for bringing the inventory to a stable, useable, and marketable condition and location. The production overhead is allocated to inventories based on the normal capacity of the production. Inventories are substantially measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(9) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method. Under the equity method, investments in associates are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

When the Group subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of the equity of associates. If the Group's ownership interest is reduced due to the additional subscription of new shares of an associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss, if any. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When the Group determines impairment loss, the entire carrying amount of an investment in an associate is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities.

Profits and losses resulting from the transactions between the Group and associates are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(10) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

B. Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

C. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Except for land is not depreciated, the estimated useful lives of the other property, plant and equipment are as follows:

- (a) Land improvements: 7 years
- (b) Building—building cost: 20 to 50 years
- (c) Building—electrical engineering: 20 years
- (d) Testing equipment: 3 to 7 years
- (e) Office equipment: 3 to 7 years

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

(f) Mechanical equipment: 1 to 6 years

(g) Other equipment: 2 to 15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(11) Leases

A. Identifying a lease

A contract is, or contains, a lease when all the following conditions are satisfied:

- (a) the contract involves the use of an identified asset, and the supplier does not have a substantive right to substitute the asset; and
- (b) the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- (c) the Group has the right to direct the use of the identified asset throughout the period of use.

B. As a lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset of lease modifications that decreased the scope of the lease, and recognizing in profit or loss on the partial or full termination of the lease; making a corresponding adjustment to the right-of-use asset of all other lease modifications. Lease liabilities are presented on a separate line in the balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

C. As a lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

(12) Intangible assets

A. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized using the straight-line method based on the following estimated useful lives: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 3 years or contract period; patent and others - the economic life or contract period. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

B. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination is initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

C. Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

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

(13) Impairment of non-financial assets

Other than inventories and deferred tax assets, the carrying amounts of the Group's property, plant and equipment, right-of-use assets and other intangible assets with finite useful lives are reviewed at the reporting date to determine whether there is any indication of impairment. When there is an indication of impairment exists for the aforementioned assets, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset has been allocated to.

In performing an impairment test for other long-term non-financial assets, the estimated recoverable amount is evaluated in terms of an asset or a CGU. Any excess of the carrying amount of the asset or its related CGU over its recoverable amount is recognized as an impairment loss. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use. If there is evidence that the accumulated impairment loss of an asset in prior years no longer exists or has decreased, the amount previously recognized as an impairment loss is reversed, and the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

For intangible assets with indefinite useful lives or that are not yet available for use, are required to be tested for impairment at least annually. Any excess of the carrying amount of the asset over its recoverable amount is recognized as an impairment loss.

(14) Revenue recognition

A. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(a) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

The Group offers volume discounts and sale discounts to its customers based on aggregate sales of goods. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts and sale discounts. Historical experience and deal-way with customers is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional. The consideration received in advance from the customer but without delivery of goods is recognized as a contract liability, for which revenue is recognized when the control over the goods is transferred to the customer.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

(b) Rendering of services

The Group progressively recognizes service revenue based on the progress towards complete satisfaction of contract, and only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

If there are changes in circumstances, the estimates of revenue, cost, and the progress towards complete satisfaction of contract will be amended. Any changes therein are recognized in profit or loss during the period in which the changes and amendments are made.

(c) Financing components

The Group does not expect to have any contracts where the period between the transfer of the services to the customer and payment by the customer, exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(15) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

B. Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

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

Defined benefit costs (including service costs, net interest and rereasurement) under the defined benefit retirement plans are determined using the projected unit credit method. Service costs and net interest on net defined benefit liabilities (assets) are recognized as employee benefits expenses in the period that they occur. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(16) Share-based payment

The fair value at the grant date of employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date is the date when both parties of the Group and the employees reach an agreement on the subscription price and the number of shares to be subscribed.

At the end of each reporting period, the Group revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

The grant by the Group of its equity instruments to the employees of a subsidiary under options is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by referring to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus-employee share options.

Providing that the Group grants new equity instruments as a replacement for cancelled equity instruments, the Group shall recognize new equity instruments in the same way as a modification of original equity instruments. The incremental fair value is the difference between the fair value of new equity instruments and the net fair value of cancelled equity instruments at the date when new equity instruments are granted.

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

(17) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for items related to business combinations or items recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

A. Current taxes

Current taxes comprise the expected tax payables or receivables on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using the statutory tax rate or the actual legislative tax rate at the reporting date. In accordance with the ROC Income Tax Act, undistributed earnings from the companies located in the Republic of China is subject to an additional surtax. The surtax on unappropriated earnings is expensed in the year the shareholders approved the distributions.

B. Deferred taxes

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax liabilities are recognized for temporary difference of future taxable income. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and that they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which a liability is settled or an asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset only if certain criteria are met.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

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

(18) Business combination

The Group accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Group recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

For each business combination, the Group measures any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, if the non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by the IFRSs endorsed by the FSC.

(19) Earnings per share

Basic earnings per share is computed by dividing profit or loss of the period by the weighted-average number of common shares outstanding during the period. In computing diluted earnings per share, profit or loss of the period and the weighted-average number of common shares outstanding during the period are adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued. The effects of dilutive potential common stock include estimated employee compensation, employee stock options and convertible bonds.

(20) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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

In preparing these consolidated financial statements in conformity with IFRSs endorsed by the FSC, the management has made 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 management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

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

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(1) Judgment of whether the Group has substantive control over its investees

The Group holds 39.04% of the outstanding shares of HOSIN Global Electronics Co., Ltd. (the investee). However, due to the multiple voting right system, the Group only obtained 27.05% of the voting rights. The remaining 54.89% of voting rights are concentrated within specific shareholders. Thus, the Group still cannot obtain more than half of the total number of the investee's directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Group has significant influence but without control on the investee.

(2) Inventories

Inventories are measured at the lower of cost or net realizable value. The Group uses judgement and estimates to determine the net realizable value of inventory at each reporting date. The estimation of net realizable value is determined based on current market conditions and historical experience with product sales of a similar nature. However, rapid industrial transformation and the change of marketing conditions may result in a significant influence on the estimation. Please refer note 6(7) for further description of the valuation of inventories.

6. Description of significant accounts

(1) Cash and cash equivalent

	December 31, 2022	December 31, 2021
Cash	\$ 145	230
Demand deposits and check deposits	11,507,034	13,292,251
Cash equivalents – time deposits	<u>5,526,590</u>	<u>5,748,466</u>
	<u>\$ 17,033,769</u>	<u>19,040,947</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

	December 31, 2022	December 31, 2021
Financial assets at fair value through profit or loss – current:		
Beneficiary certificates – open-end funds	\$ 110,769	473,978
Domestic listed stock (note)	674,253	728,076
Derivative instruments – convertible bonds (note 6(17))	<u>-</u>	<u>4,900</u>
	<u>\$ 785,022</u>	<u>1,206,954</u>

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

	December 31, 2022	December 31, 2021
Financial assets at fair value through profit or loss – non-current:		
Domestic private equity funds	\$ 34,444	39,909
Domestic unlisted stocks	174,012	302,867
Foreign unlisted stocks	108,891	108,793
	\$ 317,347	451,569

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 thousand shares of newly issued common stock of Apacer Technology Inc. in exchange for the previously held 1,252 thousand shares of UD INFO Corp., with the base date set on August 1, 2022. Due to the aforementioned transaction, the cumulative gain in equity recognized during the period in which the Company held UD INFO Corp.’s shares amounting to \$94,932 thousand had been reclassified from FVOCI to retained earnings.

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost – current

	December 31, 2022	December 31, 2021
Segregated foreign exchange deposit account for Offshore Funds	\$ -	528,235
Pledged time deposits	40,499	40,459
	\$ 40,499	568,694

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

	December 31, 2022	December 31, 2021
Domestic unlisted stocks (note)	\$ 235,752	294,433
Foreign unlisted stocks	195,945	340,324
	\$ 431,697	634,757

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)

	December 31, 2022	December 31, 2021
Accounts receivable	\$ 6,126,356	5,955,927
Accounts receivable – related parties	1,221,183	2,821,043
	7,347,539	8,776,970
Less: loss allowance	(110,744)	(47,709)
Accounts receivable, net	\$ 7,236,795	8,729,261

As of January 1, 2021, the ending balance of accounts receivable, net (including related parties) was \$6,017,701 thousand.

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.

	December 31, 2022		
	Gross carrying amount	Weighted- average loss rate (%)	Loss allowance
Current	\$ 6,344,599	0.31	19,831
1~60 days past due	975,376	6.49	63,349
121~150 days past due	708	100.00	708
More than 151 days past due	26,856	100.00	26,856
	\$ 7,347,539		110,744

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

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

	For the years ended December 31,	
	2022	2021
Balance, beginning of the period	\$ 47,709	41,109
Impairment losses recognized	63,035	6,600
Balance, end of the period	\$ 110,744	47,709

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

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

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

(Unit: USD in Thousands)

December 31, 2022				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ 2,166	1,714	0.22~0.65	Note 1~4

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

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

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 December 31, 2022 and 2021, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$52,651 thousand and \$42,292 thousand, respectively, were recognized under other receivables.

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

(6) Other receivables

	December 31, 2022	December 31, 2021
Tax refund receivable	\$ 193,916	470,137
Factored accounts receivable	52,651	42,292
Liquidation refund receivable from investees	-	70,991
Others	87,335	40,492
Less: loss allowance	-	-
	\$ 333,902	623,912

(7) Inventories

	December 31, 2022	December 31, 2021
Raw materials	\$ 14,763,313	11,810,664
Work in process	2,427,948	4,647,351
Semi-finished goods	2,972,532	2,902,052
Finished goods	226,582	136,467
	\$ 20,390,375	19,496,534

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

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2022 and 2021 were \$42,923,527 thousand and \$43,402,812 thousand, respectively.

The costs of goods sold for the December 31, 2022 and 2021 included inventory obsolescence loss of \$1,711,889 thousand and \$135,888 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

	December 31, 2022	December 31, 2021
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,252,782	3,402,515
EpoStar Electronics (BVI) Corporation	206,796	421,077
Hefei Xinpeng Technology Co., Ltd.	81,685	135,886
ProGrade Digital Inc.	126,981	98,019
Nextorage Corporation (note)	-	74,263
Microtops Design Corporation	25,719	23,282
	\$ 3,693,963	4,155,042

Note: Please refer to note 6(9) for related information.

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

Name of Associates	Principal Activity	Main Operating Location/ Registered Country	Ownership interest (%)	
			December 31, 2022	December 31, 2021
HOSIN Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	China	39.04	42.63

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:

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

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

	December 31, 2022	December 31, 2021
Current assets	\$ 14,392,735	8,691,933
Non-current assets	4,912,374	5,079,009
Current liabilities	(9,820,783)	(5,280,167)
Non-current liabilities	<u>(1,117,050)</u>	<u>(444,712)</u>
Net assets	<u>\$ 8,367,276</u>	<u>8,046,063</u>
	For the years ended December 31,	
	2022	2021
Operating revenue	<u>\$ 24,469,891</u>	<u>16,700,164</u>
Net profit (loss)	\$ (3,125,705)	592,721
Other comprehensive income (loss)	<u>211,508</u>	<u>(32,713)</u>
Total comprehensive income (loss)	<u>\$ (2,914,197)</u>	<u>560,008</u>
	December 31, 2022	December 31, 2021
Summarized information of the carrying amount of significant associates	<u>\$ 3,252,782</u>	<u>3,402,515</u>
	For the years ended December 31,	
	2022	2021
Attributable to the Group:		
Net profit (loss)	\$ (1,276,066)	267,210
Other comprehensive income (loss)	<u>27,143</u>	<u>(39,993)</u>
Total comprehensive income (loss)	<u>\$ (1,248,923)</u>	<u>227,217</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 CN\$54,095 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 changes in equity of associate recognized by the Group amounted to \$(145,046) thousand for the year ended December 31, 2021, reversed retained earnings of \$416,037 thousand and recognized in the capital surplus \$270,991 thousand, respectively.

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

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 \$1,015,832 thousand for the year ended December 31, 2022.

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

	December 31, 2022	December 31, 2021
Summarized information of the carrying amount of associates that were not individually material	\$ 441,181	752,527
	For the years ended December 31, 2022	2021
Attributable to the Group:		
Net profit (loss)	\$ (43,102)	23,524
Other comprehensive income (loss)	(206,934)	259,762
Total comprehensive income (loss)	\$ (250,036)	283,286

In 2021, the capital reduction of EpoStar Electronics (BVI) Corporation amounting to \$54,457 thousand and the change in percentage of ownership interests in ProGrade Digital, Inc., resulted in the changes in equity of associate amounting to \$(9,412) thousand, including the reversals of capital surplus of \$2,466 thousand and retained earnings of \$6,946 thousand, respectively, to be recognized.

In 2022, the change in percentage of ownership interests in ProGrade Digital, Inc. resulted in the changes in equity of associate, including the reversal of capital surplus amounting to \$3,708 thousand.

- C. Pledged

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

- (9) Business Combinations

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

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

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

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

B. Net cash outflow of the acquisition of subsidiaries

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

Gain on a bargain purchase from acquisition was as follows:

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

The Group re-measured the fair value of its existing equity interest of 49% in Nextorage before the acquisition date, and the deemed gain on disposal of investments accounted for using the equity method of \$27,689 thousand was recognized as “other gains and losses” on the consolidated statement of comprehensive income for the year ended December 31, 2022.

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

(10) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Mechanical and testing equipment</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost:						
Balance at January 1, 2022	\$ 1,762,820	2,626,517	1,371,564	274,718	1,982,139	8,017,758
Additions for the period	386,279	273,822	463,689	138,900	253,536	1,516,226
Acquisition through business combination	189	10,841	1,519	23,376	212	36,137
Disposal for the period	-	-	(297,506)	(53,752)	-	(351,258)
Reclassification	-	2,158,507	17,374	12,632	(2,189,389)	(876)
Effect of movements in exchange rates	(3)	(340)	2,997	1,601	(7)	4,248
Balance at December 31, 2022	<u>\$ 2,149,285</u>	<u>5,069,347</u>	<u>1,559,637</u>	<u>397,475</u>	<u>46,491</u>	<u>9,222,235</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	618,083	19,844	418,291	85,051	1,269,742	2,411,011
Disposal for the period	-	-	(175,940)	(37,300)	-	(213,240)
Reclassification	-	3,034	35,018	5,452	-	43,504
Effect of movements in exchange rates	-	-	(1,821)	(521)	-	(2,342)
Balance at December 31, 2021	<u>\$ 1,762,820</u>	<u>2,626,517</u>	<u>1,371,564</u>	<u>274,718</u>	<u>1,982,139</u>	<u>8,017,758</u>
Depreciation:						
Balance at January 1, 2022	\$ -	596,723	634,894	135,579	-	1,367,196
Depreciation for the period	-	126,775	388,773	86,112	-	601,660
Disposal for the period	-	-	(294,117)	(52,237)	-	(346,354)
Effect of movements in exchange rates	-	14	672	1,286	-	1,972
Balance at December 31, 2022	<u>\$ -</u>	<u>723,512</u>	<u>730,222</u>	<u>170,740</u>	<u>-</u>	<u>1,624,474</u>
Balance at January 1, 2021	\$ -	518,527	506,588	107,170	-	1,132,285
Depreciation for the period	-	78,196	304,724	65,809	-	448,729
Disposal for the period	-	-	(175,940)	(37,300)	-	(213,240)
Effect of movements in exchange rates	-	-	(478)	(100)	-	(578)
Balance at December 31, 2021	<u>\$ -</u>	<u>596,723</u>	<u>634,894</u>	<u>135,579</u>	<u>-</u>	<u>1,367,196</u>
Carrying amounts:						
Balance at December 31, 2022	<u>\$ 2,149,285</u>	<u>4,345,835</u>	<u>829,415</u>	<u>226,735</u>	<u>46,491</u>	<u>7,597,761</u>
Balance at December 31, 2021	<u>\$ 1,762,820</u>	<u>2,029,794</u>	<u>736,670</u>	<u>139,139</u>	<u>1,982,139</u>	<u>6,650,562</u>
Balance at January 1, 2021	<u>\$ 1,144,737</u>	<u>2,085,112</u>	<u>589,428</u>	<u>114,866</u>	<u>712,397</u>	<u>4,646,540</u>

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.

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

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

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

(11) Lease arrangements

A. Right-of-use assets

The Group leases assets including buildings, transportation equipment and others. The cost and depreciation of right-of-use assets were as follows:

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Cost:				
Balance at January 1, 2022	\$ 65,480	992	6,574	73,046
Additions for the period	153,465	528	-	153,993
Deduction for the period and others	(40,147)	(224)	(6,574)	(46,945)
Effect of movements in exchange rate	<u>1,210</u>	<u>-</u>	<u>-</u>	<u>1,210</u>
Balance at December 31, 2022	<u>\$ 180,008</u>	<u>1,296</u>	<u>-</u>	<u>181,304</u>
Balance at January 1, 2021	\$ 38,600	2,401	6,574	47,575
Additions for the period	36,470	-	-	36,470
Deduction for the period and others	(9,043)	(1,409)	-	(10,452)
Effect of movements in exchange rate	<u>(547)</u>	<u>-</u>	<u>-</u>	<u>(547)</u>
Balance at December 31, 2021	<u>\$ 65,480</u>	<u>992</u>	<u>6,574</u>	<u>73,046</u>
Depreciation:				
Balance at January 1, 2022	\$ 27,545	473	5,752	33,770
Depreciation for the period	47,884	408	822	49,114
Deduction for the period and others	(25,454)	(224)	(6,574)	(32,252)
Effect of movements in exchange rate	<u>596</u>	<u>-</u>	<u>-</u>	<u>596</u>
Balance at December 31, 2022	<u>\$ 50,571</u>	<u>657</u>	<u>-</u>	<u>51,228</u>

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

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2021	\$ 11,431	1,295	2,465	15,191
Depreciation for the period	18,039	587	3,287	21,913
Deduction for the period and others	(1,772)	(1,409)	-	(3,181)
Effect of movements in exchange rate	(153)	-	-	(153)
Balance at December 31, 2021	<u>\$ 27,545</u>	<u>473</u>	<u>5,752</u>	<u>33,770</u>
Carrying amounts:				
Balance at December 31, 2022	<u>\$ 129,437</u>	<u>639</u>	<u>-</u>	<u>130,076</u>
Balance at December 31, 2021	<u>\$ 37,935</u>	<u>519</u>	<u>822</u>	<u>39,276</u>
Balance at January 1, 2021	<u>\$ 27,169</u>	<u>1,106</u>	<u>4,109</u>	<u>32,384</u>

B. Lease liabilities

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current	<u>\$ 46,250</u>	<u>24,027</u>
Non-current	<u>\$ 85,526</u>	<u>16,003</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 years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Interest expenses relating to lease liabilities	<u>\$ 1,214</u>	<u>730</u>
Expenses relating to short-term lease	<u>\$ 9,566</u>	<u>4,621</u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	<u>\$ 1,100</u>	<u>848</u>

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

	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Total cash outflow for leases	<u>\$ 59,869</u>	<u>27,591</u>

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

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

The cost and amortization of intangible assets of the Group were as follows:

	<u>Computer software</u>	<u>Technology License Fees</u>	<u>Total</u>
Cost:			
Balance at January 1, 2022	\$ 1,214,130	403,695	1,617,825
Additions for the period	397,030	54,613	451,643
Acquisition through business combination	2,401	-	2,401
Reclassification	2,438	-	2,438
Effects of movements in exchange rates	<u>38</u>	<u>-</u>	<u>38</u>
Balance at December 31, 2022	<u>\$ 1,616,037</u>	<u>458,308</u>	<u>2,074,345</u>
Balance at January 1, 2021	\$ 977,241	367,976	1,345,217
Additions for the period	236,905	35,719	272,624
Effects of movements in exchange rates	<u>(16)</u>	<u>-</u>	<u>(16)</u>
Balance at December 31, 2021	<u>\$ 1,214,130</u>	<u>403,695</u>	<u>1,617,825</u>
Amortization:			
Balance at January 1, 2022	\$ 957,934	345,220	1,303,154
Amortization for the period	339,506	56,288	395,794
Effects of movements in exchange rates	<u>61</u>	<u>-</u>	<u>61</u>
Balance at December 31, 2022	<u>\$ 1,297,501</u>	<u>401,508</u>	<u>1,699,009</u>
Balance at January 1, 2021	\$ 730,411	300,912	1,031,323
Amortization for the period	227,527	44,308	271,835
Effects of movements in exchange rates	<u>(4)</u>	<u>-</u>	<u>(4)</u>
Balance at December 31, 2021	<u>\$ 957,934</u>	<u>345,220</u>	<u>1,303,154</u>
Carrying amounts:			
Balance at December 31, 2022	<u>\$ 318,536</u>	<u>56,800</u>	<u>375,336</u>
Balance at December 31, 2021	<u>\$ 256,196</u>	<u>58,475</u>	<u>314,671</u>
Balance at January 1, 2021	<u>\$ 246,830</u>	<u>67,064</u>	<u>313,894</u>

None of the intangible assets mentioned above were pledged as collateral.

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

(13) Short-term borrowings

	December 31, 2022	December 31, 2021
Unsecured bank loans	\$ -	409,216
Secured bank loans	-	30,000
	\$ -	439,216
Range of interest rates at the end of period (%)	-	0.50~1.07

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

(14) Other payables

	December 31, 2022	December 31, 2021
Salaries and bonus payable	\$ 6,066,671	6,711,819
Dividend payable (note 6(20))	1,970,963	1,970,740
Others	901,494	1,138,587
	\$ 8,939,128	9,821,146

(15) Other current liabilities

	December 31, 2022	December 31, 2021
Guarantee deposits received (note 9(3))	\$ 921,300	-
Refund liabilities	620,776	828,962
Payables for purchases of equipment	88,419	100,605
Receipts under custody	87,669	64,036
Others	8,243	55,093
	\$ 1,726,407	1,048,696

(16) Long-term borrowings

	December 31, 2022		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	2.125	January, 2028	\$ 164,932
Less: current portion			(31,050)
Total			\$ 133,882

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

	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><u>\$ 164,689</u></u>

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

(17) Bonds payable

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

The details of unsecured convertible bonds were as follows:

	December 31, 2022	December 31, 2021
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	<u>(57,969)</u>	<u>(87,145)</u>
Bonds payable	<u><u>\$ 3,442,031</u></u>	<u><u>3,412,855</u></u>
Embedded derivative instruments—call and conversion options, included in financial assets at fair value through profit or loss—current	<u><u>\$ -</u></u>	<u><u>4,900</u></u>
Embedded derivative instruments—Equity component— conversion options, included in capital surplus—stock options	<u><u>\$ 102,369</u></u>	<u><u>102,369</u></u>
	For the years ended December 31,	
	2022	2021
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	<u><u>\$ (4,900)</u></u>	<u><u>2,105</u></u>
Interest expense	<u><u>\$ 29,176</u></u>	<u><u>1,120</u></u>

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

The conversion price per share at the time of issuance of NT\$570 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 NT\$475 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, July 4, 2022, and December 19, 2022, the conversion prices were adjusted from NT\$570 to NT\$556.3, NT\$556.3 to NT\$537.3, and NT\$537.3 to NT\$520.6, respectively.

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

According to the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Group contributes amounts equal to certain percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. By the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

Reconciliations of the present value of defined benefit obligation and the fair value of plan asset were as follows:

	December 31, 2022	December 31, 2021
Present value of defined benefit obligations	\$ 164,193	149,156
Fair value of plan assets	(49,395)	(44,259)
Net defined benefit liabilities	\$ 114,798	104,897

(a) Composition of plan assets

The Group's domestic subsidiaries contribute pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

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

Bank of Taiwan labor pension reserve account balance of the Group's domestic subsidiaries amounted to \$49,395 thousand as of December 31, 2022. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(b) Movements in present value change of defined benefit obligation

	For the years ended December 31,	
	2022	2021
Defined benefit obligation at January 1	\$ 149,156	144,989
Current service cost	3,000	2,656
Current interest cost	1,193	580
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in demographic assumptions	-	240
— Actuarial losses (gains) arising from changes in experience adjustment	28,422	11,385
— Actuarial losses (gains) arising from changes in financial assumptions	(16,862)	(10,694)
Benefits paid	(716)	-
Defined benefit obligation at December 31	<u>\$ 164,193</u>	<u>149,156</u>

(c) Movements of defined benefit plan assets

	For the years ended December 31,	
	2022	2021
Fair value of plan assets at January 1	\$ 44,259	41,461
Interest income	354	166
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	3,204	577
Contribution to the plan	2,294	2,055
Benefits paid	(716)	-
Fair value of plan assets at December 31	<u>\$ 49,395</u>	<u>44,259</u>

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

(d) Expenses recognized in profit or loss

	For the years ended December 31,	
	2022	2021
Current service cost	\$ 3,000	2,656
Net interest on the net defined benefit liabilities (assets)	839	414
	\$ 3,839	3,070

(e) Remeasurements of net defined benefit liabilities (assets) recognized in other comprehensive income

	For the years ended December 31,	
	2022	2021
Accumulated amount at January 1	\$ (48,513)	(48,230)
Recognized during the period	(6,685)	(283)
Accumulated amount at December 31	\$ (55,198)	(48,513)

(f) Actuarial assumptions

	December 31, 2022	December 31, 2021
Discount rate (%)	1.40	0.80
Future salary increase rate (%)	3.00	3.00

The Group is expecting a contribution of \$2,431 thousand to its defined benefit plans in the following year after the reporting date.

The weighted-average duration of the defined benefit obligation is 17 years.

(g) Sensitivity analysis

If there was a change in the actuarial assumptions the impact on the present value of the defined benefit obligation would be as follows:

	Impact on present value of defined benefit obligations	
	Increase 0.25%	Decrease 0.25%
	December 31, 2022	
Discount rate	\$ (6,465)	6,786
Future salary increase rate	6,248	(5,998)
December 31, 2021		
Discount rate	\$ (6,121)	6,435
Future salary increase rate	5,902	(5,660)

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

Reasonably possible changes at the reporting date in one of the relevant actuarial assumptions, assuming all other variables remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the parent company only balance sheets.

There were no changes in the method and assumptions used in calculating the sensitivity analysis for the years of 2022 and 2021.

B. Defined contribution plans

The Company and the Group's domestic subsidiaries allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs of the Group's domestic subsidiaries under the defined contribution method were \$223,319 thousand and \$155,717 thousand for the years ended December 31, 2022 and 2021, respectively. Payment was made to the Bureau of Labor Insurance.

The pension costs of the Group's overseas subsidiaries under the defined contribution method were \$5,983 thousand and \$1,945 thousand for the years ended December 31, 2022 and 2021, respectively.

(19) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	For the years ended December 31,	
	2022	2021
Current tax expense		
Current period	\$ 1,266,182	1,682,446
Income tax expense of unappropriated earnings	103,209	169,379
	1,369,391	1,851,825
Deferred tax expense		
Origination and reversal of temporary differences	(473,617)	(261,426)
Income tax expense	\$ 895,774	1,590,399

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

Reconciliations of income tax expense and profit before income tax expense were as follows:

	For the years ended December 31,	
	2022	2021
Profit before income tax	<u>\$ 6,296,920</u>	<u>9,737,614</u>
Income tax using the Company's domestic tax rate	\$ 1,259,384	1,947,523
Effect of tax rates in foreign jurisdiction	44,634	93,734
Permanent difference	33,504	(62,322)
Investment tax incentives	(570,717)	(566,219)
Effect of unrecognized deferred tax liabilities	50,798	-
Income tax expense of unappropriated earnings	103,209	169,379
Others	<u>(25,038)</u>	<u>8,304</u>
Income tax expense	<u>\$ 895,774</u>	<u>1,590,399</u>

B. Income tax recognized in other comprehensive income

The amounts of income tax expense (benefit) recognized in other comprehensive income were as follows:

	For the years ended December 31,	
	2022	2021
Remeasurements from defined benefit plans	\$ (1,671)	(71)
Exchange differences on translation of foreign financial statements	<u>6,817</u>	<u>-</u>
	<u>\$ 5,146</u>	<u>(71)</u>

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

The Group is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2022 and 2021. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details were as follows:

	December 31,	December 31,
	2022	2021
Unrecognized deferred tax liabilities	<u>\$ 360,239</u>	<u>411,037</u>

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

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

	<u>January 1, 2022</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>Effect of movements in exchange rates</u>	<u>Acquisitions through business combinations</u>	<u>December 31, 2022</u>
Deferred tax assets						
Inventory write-downs	\$ 134,074	334,331	-	-	-	468,405
Unrealized exchange losses	133,659	2,403	-	-	-	136,062
Refund liabilities	165,792	(41,637)	-	-	-	124,155
Loss on foreign investment accounted for using the equity method	-	49,825	-	-	-	49,825
Impairment loss on financial assets	25,258	(2,142)	-	-	-	23,116
Net defined benefit liabilities	20,980	308	1,671	-	-	22,959
Others	15,430	(3,259)	-	(1,851)	54,315	64,635
	<u>\$ 495,193</u>	<u>339,829</u>	<u>1,671</u>	<u>(1,851)</u>	<u>54,315</u>	<u>889,157</u>
Deferred tax liabilities:						
Gain on foreign investment accounted for using the equity method	\$ 183,177	(133,813)	-	-	-	49,364
Exchange differences on translating foreign operations	-	-	6,817	-	-	6,817
Others	-	25	-	-	-	25
	<u>\$ 183,177</u>	<u>(133,788)</u>	<u>6,817</u>	<u>-</u>	<u>-</u>	<u>56,206</u>
	<u>\$ 375,960</u>	<u>119,162</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>495,193</u>
Deferred tax assets:						
Refund liabilities	\$ 98,186	67,606	-	-	-	165,792
Inventory write-downs	106,902	27,172	-	-	-	134,074
Unrealized exchange losses	120,325	13,334	-	-	-	133,659
Impairment loss on financial assets	25,258	-	-	-	-	25,258
Net defined benefit liabilities	20,706	203	71	-	-	20,980
Others	4,583	10,847	-	-	-	15,430
	<u>\$ 375,960</u>	<u>119,162</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>495,193</u>
Deferred tax liabilities:						
Share of gains of subsidiaries and associates accounted for using the equity method	\$ 325,441	(142,264)	-	-	-	183,177

D. Examination and approval

The income tax returns of the Company and the domestic subsidiaries had been examined and assessed by the tax authority through 2020.

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

(20) Equity

A. Common shares

As of December 31, 2022 and 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 NT\$10 per share.

As of December 31, 2022, because the related registration procedures were still in progress, the new common shares arising from the exercise of employee share options amounting to \$16,005 thousand were recognized as advance receipts for share capital.

The reconciliation of number of outstanding shares of the Company for the December 31, 2022 and 2021, respectively were as follows:

(Unit: Shares in Thousands)

	For the years ended December 31,	
	2022	2021
Balance, beginning of the period	\$ 197,074	197,074
Effect of repurchasing treasury shares	(6,860)	-
Employee share options exercised	1,601	-
Balance, end of the period	<u>\$ 191,815</u>	<u>197,074</u>

B. Capital surplus

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

	December 31, 2022	December 31, 2021
Additional paid-in capital	\$ 6,597,101	6,237,434
Changes in equities of associates accounted for using the equity method	1,280,649	268,525
Difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
Changes in ownership interests in subsidiaries	1,944	1,944
Employee share options	839,390	479,179
Due to recognition of equity component of convertible bonds	102,369	102,369
Expired employee share options	227	227
	<u>\$ 8,970,438</u>	<u>7,238,436</u>

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

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.

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

The appropriation of 2022 earnings were as follows:

	Second Half of 2022	First Half of 2022
Resolution date of the Company's Board of Directors	March 15, 2023	July 29, 2022
Cash dividends to shareholders	\$ 865,962	1,970,740
Cash dividends per share (NTD)	4.50	10
Legal reserve	149,748	399,192
Special reserve	216,810	-

The amount of legal reserve of 2022 will be submitted to the shareholders' meeting for approval on May 31, 2023.

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:

	For the years ended December 31, 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 2020 earnings for 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.

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

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 \$2,061,216 thousand in total.

E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	For the years ended December 31,	
	2022	2021
Balance at January 1	\$ (143,563)	(37,091)
Foreign exchange differences (net of tax)	170,834	(106,472)
Balance at December 31	\$ 27,271	(143,563)

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

	For the years ended December 31,	
	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)	(395,996)	386,669
Disposal for the period	(94,932)	(11,572)
Balance at December 31	\$ (244,081)	246,847

(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 December 31, 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	284.40
2021 First employee share options (note)	October 4, 2021	November 19, 2021	6,000	service period between 2~3 years	414.50	note

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

<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>
2020 First employee share options	April 10, 2020	October 5, 2020	6,000	service period between 2~2.5 years	262.00	227.70
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	227.70

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 \$360,211 thousand and \$281,369 thousand for the December 31, 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.

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

Information related to employee share options was as follows:

A. 2022 First employee share options

Employee share options	For the years ended December 31, 2022	
	Number of Options (In Thousands of Units)	Weighted- average exercise price (NTD)
Outstanding at January 1	-	\$ -
Granted during the period	6,000	293.50
Exercised during the period	-	-
Forfeited during the period	(31)	-
Outstanding at December 31	<u>5,969</u>	284.40
Exercisable at December 31	<u>-</u>	

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option were 3.69 years.

B. 2021 First employee share options

Employee share options	For the years ended December 31,			
	2022		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)
Outstanding at January 1	5,987	\$ 404.50	-	\$ -
Granted during the period	-	-	6,000	414.50
Exercised during the period	-	-	-	-
Forfeited during the period	(87)	-	(13)	-
Retracted during the period	(5,900)	-	-	-
Outstanding at December 31	<u>-</u>	-	<u>5,987</u>	404.50
Exercisable at December 31	<u>-</u>		<u>-</u>	

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

C. 2020 First employee share options

	For the years ended December 31,			
	2022		2021	
Employee share options	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Outstanding at January 1	5,782	\$ 243.30	5,835	\$ 262.00
Granted during the period	-	-	-	-
Exercised during the period	(1,127)	227.7~235.0	-	-
Forfeited during the period	(13)	-	(53)	-
Outstanding at December 31	<u>4,642</u>	227.70	<u>5,782</u>	243.30
Exercisable at December 31	<u>1,760</u>		<u>-</u>	

As of December 31, 2022 and 2021, the weighted-average remaining contractual life for outstanding option were 0.75 and 1.75 years, respectively.

D. 2019 Second employee share options

	For the years ended December 31,			
	2022		2021	
Employee share options	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Outstanding at January 1	1,940	\$ 243.30	1,976	\$ 262.00
Granted during the period	-	-	-	-
Exercised during the period	(457)	227.7~235.0	-	-
Forfeited during the period	(3)	-	(36)	-
Outstanding at December 31	<u>1,480</u>	227.70	<u>1,940</u>	243.30
Exercisable at December 31	<u>512</u>		<u>-</u>	

As of December 31, 2022 and 2021, the weighted-average remaining contractual life for outstanding option, were 0.75 and 1.75 years, respectively.

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

(22) Earnings per share

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

A. Basic earnings per share

	For the years ended December 31,	
	2022	2021
Net profit attributable to ordinary shareholders of the Company	\$ <u>5,401,146</u>	<u>8,147,215</u>
Weighted-average number of shares outstanding during the year (in thousands of shares)	<u>194,935</u>	<u>197,074</u>
Basic earnings per share (NTD)	\$ <u>27.71</u>	<u>41.34</u>

B. Diluted earnings per share

	For the years ended December 31,	
	2022	2021
Net profit attributable to ordinary shareholders of the Company	\$ 5,401,146	8,147,215
Effect of dilutive potential ordinary shares		
Convertible bonds	<u>19,420</u>	<u>(788)</u>
Net profit attributable to ordinary shareholders of the Company	\$ <u>5,420,566</u>	<u>8,146,427</u>
Weighted average number of shares outstanding during the year (in thousands of shares)	194,935	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	3,137	3,315
Employees' compensation	3,529	2,575
Effect of conversion of convertible bonds	<u>6,409</u>	<u>254</u>
	<u>208,010</u>	<u>203,218</u>
Diluted earnings per share (NTD)	\$ <u>26.06</u>	<u>40.09</u>

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

(23) Operating revenue

Disaggregation of revenues from contracts with customers were as follows:

	For the years ended December 31,	
	2022	2021
Primary geographical markets:		
Asia	\$ 47,089,940	47,621,861
America	10,588,924	11,094,866
Europe	2,474,827	3,694,956
Australia	102,224	144,146
Others	227	1,363
	\$ 60,256,142	62,557,192
Major product categories:		
Flash memory module products	\$ 42,174,860	50,114,825
Controllers	13,907,161	10,379,076
Integrated Circuit	2,050,539	1,842,677
Others	2,123,582	220,614
	\$ 60,256,142	62,557,192

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 its remunerations to employees and directors, at the rates of 8% to 19% and a maximum rate of 1.5%, of the net profit before income tax which yet the remunerations to employees and directors, respectively. The remunerations to employees and directors for the years ended December 31, 2022 and 2021 had been approved during the Company's board meetings held on March 15, 2023 and March 4, 2022, respectively, as follows:

	For the years ended December 31,			
	2022		2021	
	Cash	Share	Cash	Share
Employees' compensation	\$ 1,000,000	-	1,100,000	-
Remuneration of directors	35,000	-	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 paid and the amounts recognized in the financial statements for the year ended December 31, 2021.

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

Information on the employees' compensation and remuneration of directors of 2022 and 2021 resolved by the Company's Board of Directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(25) Non-operating income and expenses

A. Interest income

	For the years ended December 31,	
	2022	2021
Interest income from bank deposits	\$ 97,135	37,524
Others	8	22
	\$ 97,143	37,546

B. Other income

	For the years ended December 31,	
	2022	2021
Dividend income	\$ 90,937	95,052
Rent income	21,759	20,700
Gain on a bargain purchase (note 6(9))	16,289	-
Others	72,494	40,308
	\$ 201,479	156,060

C. Other gains and losses

	For the years ended December 31,	
	2022	2021
Gains (Losses) on disposal of subsidiaries or associates accounted for using the equity method (note 6(9))	\$ 30,426	(272)
Net foreign exchange gains (losses)	755,681	(76,326)
Gains (Losses) on financial assets at fair value through profit or loss	(276,636)	266,703
Others	(144)	(2,274)
	\$ 509,327	187,831

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

D. Finance costs

	For the years ended December 31,	
	2022	2021
Interest on bank loans	\$ 5,271	17,156
Interest on lease liabilities	1,214	730
Interest on convertible bond	29,176	1,120
Others	122	-
	<u>\$ 35,783</u>	<u>19,006</u>

(26) Financial instruments

A. Categories of financial instruments

	December 31,	December 31,
	2022	2021
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,102,369	1,658,523
Financial assets at amortized cost (Note 1)	25,249,286	29,488,182
Financial assets at FVTOCI	431,697	634,757
	<u>\$ 26,783,352</u>	<u>31,781,462</u>
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	<u>\$ 20,572,844</u>	<u>22,909,645</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.

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

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:

	December 31, 2022			December 31, 2021		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	438,421	30.710	13,463,913	482,969	27.680	13,368,578
<u>Non-Monetary items</u>						
CNY	756,458	4.408	3,334,467	815,300	4.340	3,538,401
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	231,543	30.710	7,110,673	283,113	27.680	7,836,557

(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 December 31, 2022 and 2021, would have increased or decreased the net profit before income tax by \$317,662 thousand and \$276,601 thousand, respectively. The analysis was performed on the same basis for comparative years.

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

(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:

<u>For the years ended December 31,</u>	
<u>2022</u>	<u>2021</u>
<u>\$ 755,681</u>	<u>(76,326)</u>

(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% higher and all other variables were held constant, the Group's net profit before income tax for the years ended December 31, 2022 and 2021 would have increased by \$28,093 thousand and \$33,871 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 years ended December 31, 2022 and 2021 would have increased or decreased by \$110,237 thousand and \$165,852 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 years of 2022 and 2021 would have increased or decreased by \$43,170 thousand and \$63,476 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

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

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 December 31, 2022 and 2021, 36% and 40%, 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.

E. Liquidity risk

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

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

	<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>
December 31, 2022					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 16,965,881	(16,965,881)	(16,040,071)	(924,728)	(1,082)
Lease liabilities (current and non-current)	131,776	(133,584)	(47,229)	(86,355)	-
Bonds payable	3,442,031	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	<u>164,932</u>	<u>(174,143)</u>	<u>(34,250)</u>	<u>(137,038)</u>	<u>(2,855)</u>
	<u>\$ 20,704,620</u>	<u>(20,773,608)</u>	<u>(16,121,550)</u>	<u>(4,648,121)</u>	<u>(3,937)</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>

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
- 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).

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

(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:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 674,253	-	-	674,253
Domestic unlisted stocks	-	-	174,012	174,012
Foreign unlisted stocks	-	-	108,891	108,891
Domestic private equity funds	-	-	34,444	34,444
Beneficiary certificates—open-end funds	<u>110,769</u>	<u>-</u>	<u>-</u>	<u>110,769</u>
	<u>\$ 785,022</u>	<u>-</u>	<u>317,347</u>	<u>1,102,369</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	235,752	235,752
Foreign unlisted stocks	<u>-</u>	<u>-</u>	<u>195,945</u>	<u>195,945</u>
	<u>\$ -</u>	<u>-</u>	<u>431,697</u>	<u>431,697</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	<u>-</u>	<u>-</u>	<u>4,900</u>	<u>4,900</u>
	<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	<u>-</u>	<u>-</u>	<u>340,324</u>	<u>340,324</u>
	<u>\$ -</u>	<u>-</u>	<u>634,757</u>	<u>634,757</u>

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

There were no transfers between Levels 1 and 2 for the years ended December 31, 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	(5,465)	(4,900)	(125,747)	-	(136,112)
Recognized in other comprehensive income	-	-	-	(181,391)	(181,391)
Additions for the period	-	-	4,265	95,113	99,378
Disposal and proceeds from capital reduction	-	-	(7,275)	(116,782)	(124,057)
December 31, 2022	<u>\$ 34,444</u>	<u>-</u>	<u>282,903</u>	<u>431,697</u>	<u>749,044</u>
January 1, 2021	\$ 42,033	-	395,203	360,304	797,540
Recognized in profit or loss	(2,124)	2,105	58,069	-	58,050
Recognized in other comprehensive income	-	-	-	99,481	99,481
Additions for the period	-	2,795	3,338	174,972	181,105
Disposal and proceeds from capital reduction	-	-	(44,950)	-	(44,950)
December 31, 2021	<u>\$ 39,909</u>	<u>4,900</u>	<u>411,660</u>	<u>634,757</u>	<u>1,091,226</u>

(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.

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

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 (December 31, 2022: 7.69%~30% and December 31, 2021: 15%~28.97%) 	<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 (December 31, 2022: 1.6% and December 31, 2021: 2.5%) · Weighted-average cost of capital (December 31, 2022: 6.25%~12.11% and December 31, 2021: 7.02%~9.59%) · Discount for lack of marketability (December 31, 2022 and December 31, 2021: 15%) · Discount for non-controlling interest (December 31, 2022 and December 31, 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
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 (December 31, 2022 and December 31, 2021: 10%) · Discount for non-controlling interest (December 31, 2022 and December 31, 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 December 31, 2022 and 2021, was 38.59% and 43.39%, respectively.

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

(27) Capital management

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

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

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

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

The Group's debt-to-equity ratios at December 31, 2022 and 2021, were respectively as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total liabilities	\$ 22,358,014	25,712,923
Total equity	37,631,822	37,308,434
Debt-to-adjusted-capital ratio (%)	59	69

As of December 31, 2022, there is no change in the method of capital management of the Group.

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

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

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

	<u>January 1, 2022</u>	<u>Cash flows</u>	<u>Foreign exchange movement and others</u>	<u>December 31, 2022</u>
Short-term borrowings	\$ 439,216	(442,995)	3,779	-
Bonds payable	3,412,855	-	29,176	3,442,031
Long-term borrowings (including current portion)	195,636	(30,704)	-	164,932
Lease liabilities (current and non-current)	40,030	(47,989)	139,735	131,776
Guarantee deposits received (current and non-current)	4,109	1,659,591	184,080	1,847,780
Total liabilities from financing activities	<u>\$ 4,091,846</u>	<u>1,137,903</u>	<u>356,770</u>	<u>5,586,519</u>

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

	January 1, 2021	Cash flows	Foreign exchange movement and others	December 31, 2021
Short-term borrowings	\$ 1,480,480	(1,044,498)	3,234	439,216
Bonds payable	-	3,511,309	(98,454)	3,412,855
Long-term borrowings (including current portion)	226,122	(30,486)	-	195,636
Lease liabilities (current and non-current)	32,632	(21,392)	28,790	40,030
Guarantee deposits received	4,986	(877)	-	4,109
Total liabilities from financing activities	<u>\$ 1,744,220</u>	<u>2,414,056</u>	<u>(66,430)</u>	<u>4,091,846</u>

7. Related-party transactions

(1) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
Microtops Design Corporation	Associate
Hosin Global Electronics Co., Ltd. (SZ) (Hosin Global SZ)	Associate
Hosin Global Electronics Co., Ltd. (HK)	Hosin Global SZ's subsidiary
SiliTai Electronics Co., Limited	Hosin Global SZ's subsidiary
Hefei Core Storage Electronic Limited	Hosin Global SZ's subsidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
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 had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Group since then.
Apacer Technology Inc.	The Company is its director

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
UD INFO Corp.	Since 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 years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Associates	5,761,656	7,183,771
Other related parties	3,215,711	2,961,939
	<u>\$ 8,977,367</u>	<u>10,145,710</u>

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

B. Purchase of goods and Processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Associates	\$ (3,655)	182,447
Other related parties-Kioxia Taiwan Company	11,413,643	14,676,478
Other related parties	-	247
	<u>\$ 11,409,988</u>	<u>14,859,172</u>

(b) Processing costs

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Other related parties	<u>\$ 2,071,125</u>	<u>2,433,741</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 Net 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.

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

C. Accounts receivable from related parties

<u>Related Party Category / Name</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Associates- Hosin Global Electronics Co., Ltd. (HK)	\$ 235,530	1,614,392
Associates	417,838	553,795
Other related parties	<u>567,815</u>	<u>652,856</u>
	1,221,183	2,821,043
Less: Loss allowance	<u>(22,110)</u>	<u>(7,519)</u>
	<u><u>\$ 1,199,073</u></u>	<u><u>2,813,524</u></u>

The outstanding accounts receivable from related parties are unsecured.

D. Accounts payable to related parties

<u>Related Party Category / Name</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other related parties-Kioxia Taiwan Company	\$ 578,866	2,764,162
Other related parties	<u>-</u>	<u>436,145</u>
	<u><u>\$ 578,866</u></u>	<u><u>3,200,307</u></u>

E. Other transactions

<u>Account Name</u>	<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
		<u>2022</u>	<u>2021</u>
Operating costs	Other related parties	<u>\$ 3,812</u>	<u>1,334</u>
Operating expenses	Associates	\$ 256,178	277,377
	Other related parties	<u>6,808</u>	<u>11,955</u>
		<u><u>\$ 262,986</u></u>	<u><u>289,332</u></u>
Non-operating incomes	Associates	\$ 1,228	1,405
	Other related parties (note)	<u>44,296</u>	<u>21,781</u>
		<u><u>\$ 45,524</u></u>	<u><u>23,186</u></u>

Note: The related parties distributed \$36,381 thousand and \$91,614 thousand cash dividend to the Group for the years ended December 31, 2022 and 2021, respectively (recognized as dividend income and write-down of investment accounted for using the equity method). As of December 31, 2022 and 2021, all the aforementioned dividends had been fully received.

As of December 31, 2022 and 2021, the receivables arising from abovementioned transactions were \$81 thousand and \$26,512 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$399 thousand and \$54,392 thousand, respectively (recognized as other current liabilities).

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

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.

(3) Key management personnel compensation

Key management personnel compensation comprised:

	For the years ended December 31,	
	2022	2021
Short-term employee benefits	\$ 442,005	567,236
Post-employment benefits	1,804	1,988
Share-based payments	39,439	86,679
	\$ 483,248	655,903

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	December 31, 2022	December 31, 2021
Property, plant and equipment	As collateral for loans and finance facilities	\$ 517,906	530,694
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	40,499	40,459
		\$ 558,405	571,153

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

	December 31, 2022	December 31, 2021
Unused letters of credit	\$ 1,160,000	1,160,000

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

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

December 31, 2022	December 31, 2021
\$ -	373,455

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

December 31, 2022
\$ 26,400

D. In order to apply post-release duty payment for imported goods, the Group obtain a customs duties guarantee from the bank as follows:

December 31, 2022
\$ 1,000

(2) Purchase commitment

The Group 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 Group has to pay partial guarantee deposit before the appointment date. As of December 31, 2022, the Group has paid US\$18,480 thousand of guarantee deposit (recognized as other non-current assets).

(3) Long-term supply agreement

The Group entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of US\$90,000 thousand as agreed. The Group was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. Based on the agreement, the Group repaid US\$30,000 thousand in the fourth quarter of 2022. As of December 31, 2022, the guarantee deposits received were classified as current liabilities of \$921,300 thousand (recognized as other current liabilities) and non-current liabilities of \$921,300 thousand (recognized as guarantee deposits received) based on the expected repayment period.

10. Losses due to major disasters: None

11. Subsequent events: None

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

12. Other

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

By item	By function	For the year ended December 31,					
		2022			2021		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		963,266	7,125,126	8,088,392	567,201	7,198,463	7,765,664
Labor and health insurance		88,433	379,495	467,928	56,630	268,969	325,599
Pension		38,606	194,535	233,141	23,525	137,207	160,732
Others		49,246	177,789	227,035	40,724	129,650	170,374
Depreciation		205,125	445,649	650,774	143,423	327,219	470,642
Amortization		2,027	393,767	395,794	563	271,272	271,835

- (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 action:

- A. To ask to remove Mr. K.S. Pua from the Company’s board director position (“Removal Action”).
- B. To claim monetary damage amounting New Taiwan Dollars \$697,389 thousand against the Company, its board of directors and other co-defendants on behalf of certain investors (“Class 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 High Court rendered judgment on December 20, 2022 to dismiss the Removal Action. SFIPC disagreed court judgment and filed petition for appeal to Supreme 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 to the Company. With regard to the Class Action, even though its future development and possible consequence could not be assessed by the Company, at current stage it has no significant influence to 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

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

- C. Securities held as of December 31, 2022 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 1.
 - 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 with amount exceeding the lower of NT\$300 million or 20% of the capital stock: 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\$300 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:

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”.

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

(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	9.97 %

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.

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

(1) General 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.

(2) Product information

Please refer note 6(23) for the product information for the years ended December 31, 2022 and 2021.

(3) Geographic information

The Group categorized the operating revenue mainly based on the countries where the customers are located. And, non-current assets were categorized by the assets located, please refer note 6(23).

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

A. Revenue from external customers:

Please refer to note 6(23) for the information on revenue from external customers for the years of 2022 and 2021.

B. Non-current assets:

Geography	December 31, 2022	December 31, 2021
Asia	\$ 8,065,953	6,962,656
America	37,220	41,853
	\$ 8,103,173	7,004,509

(4) Major customer

There was no single customer that accounted for 10% or over of the Group's revenue for the years of 2022 and 2021.

Phison Electronics Corp. and Subsidiaries
Securities held as of December 31, 2022 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 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				Highest Percentage of ownership (%) during the year	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	519,760	10.23	519,760	11.24	
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	128,753	0.89	128,753	0.89	
	Acer Synergy Tech Corp.	-	Same as above	600	<u>25,740</u>	3.00	25,740	6.91	
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	5,355	<u>674,253</u>	11.11	122,259	11.11	
	Taiwania Capital Buffalo Fund CO., Ltd. (formerly known as Taishan Buffalo Investment CO., Ltd.)	-	Same as above	46,300	36,211	1.08	36,211	1.08	
	Innorich Venture Capital Corp.	-	Same as above	3,000	15,542	5.61	15,542	5.61	
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	<u>6,496</u>	0.67	6,496	0.67	
					<u>180,508</u>				

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	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	150,720	17.16	150,720	17.16	
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	68,769	2.92	68,769	2.92	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	22,829	19.00	22,829	19.00	
	Gomore Inc.	-	Same as above	16,925	11,259	1.86	11,259	3.39	
	H3 Platform, Inc.	-	Same as above	18,400	2,178	12.14	2,178	12.14	
	Gospal Ltd.	-	Same as above	811,857	3,529	3.19	3,529	3.19	
	AppWorks Fund IV L.P.	-	Same as above	31,500	31,500	9.86	31,500	9.86	
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-	0.60	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.66	-	12.66	
	GeoThings, Inc.	-	Same as above	150	-	3.13	-	5.36	
	Ironyun Incorporated	-	Same as above	5,000	-	3.76	-	6.02	
					<u>290,784</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>34,444</u>	3.78	34,444	3.81	

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
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	59,807	1.18	59,807	1.18	
	Translink Capital Partners IV L.P	-	Same as above	930	<u>42,588</u>	0.59	42,588	0.59	
						<u>102,395</u>			
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income – non-current	2,111	436	4.75	436	4.79	
	Translink Capital Partners V, L.P.	-	Same as above	930	27,823	1.93	27,823	2.63	
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	50,000	45,357	3.19	45,357	3.19	
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	24,214	8.20	24,214	11.90	
	New Future III Limited Partnership	-	Same as above	25,756	20,376	5.13	20,376	6.37	
	Omni Media International Incorporation	-	Same as above	1,714	12,309	2.60	12,309	2.60	
UMBO CV INC. (preference shares)	-	Same as above	1,626	-	2.34	-	2.34		
					<u>130,515</u>				

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Emtops Electronics Corporation	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income – non-current	-	<u>-</u>	19.00	-	19.00	
Phisontech Electronics	<u>Beneficiary certificates – open-end funds</u>								
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss – current	167	30,214	-	30,214	-	
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,133	-	20,133	-	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,141	-	20,141	-	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,142	-	20,142	-	
	Capital Money Market Fund	-	Same as above	1,229	<u>20,139</u>	-	20,139	-	
					<u>110,769</u>				
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>10,398</u>	12.53	10,398	13.88	

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 year ended December 31, 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\$300 million or 20% of the capital stock

For the year ended December 31, 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	11,413,643	32	Net 30 days after monthly closing	None	None	(578,866)	(10)	
	Orient Semiconductor Electronics, Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Group since then.	Processing cost	2,071,125	5	Net 30 days after monthly closing	None	None	-	-	
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	460,701	1	Net 30 days after monthly closing	None	None	(98,846)	(2)	Note 2
	Kioxia Corporation	The Company's director	Sales	(1,640,541)	(3)	Net 60 days after monthly closing	None	None	303,443	4	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(235,261)	-	Net 45~60 days after monthly closing	None	None	42,789	1	

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	(1,074,199)	(2)	Net 45 days after monthly closing	None	None	133,949	2	
	UDINFO CORP.	Since on August 1, 2022, it became a subsidiary of Apacer Technology Inc.	Sales	(137,330)	-	Net 45 days after monthly closing	None	None	79,687	1	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	Sales	(2,122,032)	(4)	Net 7~45 days after receipt date and Net 45 days after monthly closing	None	None	322,540	5	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(212,385)	-	Net 45 days after receipt date and Net 60 days after receipt date	None	None	67,217	1	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(3,044,956)	(5)	Net 45 days after monthly closing	None	None	226,234	3	
	Nextorage Corporation	Subsidiary	Sales	(525,387)	(1)	Net 60 days after monthly closing	None	None	70,559	1	Note 2
	ProGrade Digital Inc.	Associate	Sales	(351,991)	(1)	Net 30 days after receipt date	None	None	17,052	-	

Note 1: The payment terms and credit terms 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
December 31, 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	133,949	6.39	-	-	133,949	430	
	Kioxia Corporation	The Company's director	303,443	5.40	-	-	303,443	974	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	322,540	7.04	187,250	-	322,540	10,127	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	226,234	3.31	176,498	-	224,139	9,296	

Note 1: Information as of February 28, 2023.

Phison Electronics Corp. and Subsidiaries
Business relationships and significant intercompany transactions
For the year ended December 31, 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	35,099	General trading terms	0.06
		Super Storage Technology Corporation	1	Processing cost	460,701	General trading terms	0.76
			1	Manufacturing cost	12,929	General trading terms	0.02
			1	Accounts payable	98,846	General trading terms	0.16
			1	Right-of-use assets	12,704	General trading terms	0.02
			1	Lease liabilities	12,755	General trading terms	0.02
		Phison Technology Inc.	1	Marketing expenses	345,395	General trading terms	0.57
			1	Other payables	35,856	General trading terms	0.06
		Nextorage Corporation	1	Sales	525,387	General trading terms	0.87
			1	Accounts receivable	70,559	General trading terms	0.12
		Phison Electronics Japan Corp.	1	Marketing expenses	17,920	General trading terms	0.03
		Power Storage Technology (Shenzhen) Limited	1	Marketing expenses	39,729	General trading terms	0.07
			1	Other payables	21,164	General trading terms	0.04

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 year ended December 31, 2022

Table 6

(Amount in Thousands)

The following is the information on investees for the years ended December 31, 2022 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/ Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)	Carrying Value				
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	2,666,489	100.00	(857,194)	(857,194)	Subsidiary and note 4
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	1,148,118	100.00	(469,967)	(469,967)	Subsidiary and note 4
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	581,363	55,000,000	100.00	707,425	100.00	44,171	44,007	Subsidiary and note 4
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	486,585	100.00	13,991	13,991	Subsidiary and note 4
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	206,796	30.51	1,065	324	Investee accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	392,286	100.00	17,524	17,524	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	417,357	100.00	121,487	121,487	Subsidiary, notes 2 and 4
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	148,096	100.00	2,180	2,180	Subsidiary and note 4

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/ Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)	Carrying Value				
The Company	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	126,981	30.27	69,899	21,158	Investee accounted for using the equity method
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	-	-	-	100.00	(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	29,256	100.00	997	997	Subsidiary and note 4
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	8,768	-	2,299,990	100.00	8,533	100.00	(1)	(1)	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	25,719	49.00	4,972	2,437	Investee accounted for using the equity method
								<u>6,363,641</u>			<u>(1,107,108)</u>	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	27,119	100.00	(1,853)	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	127,403	100.00	14,055	Note 1	Sub-subsidiary and note 4
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	-	-	10	-	-	-	(1)	Note 1	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	588,141	100.00	46,237	Note 1	Sub-subsidiary and note 4
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	2,637,022	100.00	(858,978)	Note 1	Sub-subsidiary and note 4

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)	Carrying Value				
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	97,139	100.00	1,367	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	1,159,107	100.00	(470,061)	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 aforementioned inter-company transactions have been eliminated in the consolidated financial statements.

Phison Electronics Corp. and Subsidiaries
Information on Investment in Mainland China
For the year ended December 31, 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 December 31, 2022	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 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	(67,038)	100.00	100.00	(67,038)	91,477	-	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)	-	-	-	-	(276,581)	24.23	24.23	(67,021)	81,685	-	
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,798,778	2(1) and 2(2)	442,780	-	-	442,780	(3,125,705)	39.04	42.63	(1,276,066)	3,252,782	-	

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 December 31, 2022	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2022	Note
					Outflow	Inflow								
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	416	100.00	100.00	416	44,494	-	Note 3

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of December 31, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 2)
669,125	1,380,908	22,579,093

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 aforementioned inter-company transactions and balance have been eliminated in the consolidated financial statements.