

Phison Electronics Corp. and Subsidiaries
Consolidated Financial Statements
With Independent Auditors' Review Report
For the Three Months Ended March 31, 2023 and 2022

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

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Independent Auditors' Review Report

To the Board of Directors of Phison Electronics Corp.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Phison Electronics Corp. and its subsidiaries (“the Group”) as of March 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2023 and 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard (“IASs”) 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with the Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing of the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(2), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$3,417,678 thousand and \$3,004,899 thousand, constituting 7% and 5% of consolidated total assets as of March 31, 2023 and 2022, respectively, total liabilities amounting to \$634,537 thousand and \$773,739 thousand, constituting 4% and 3% of consolidated total liabilities as of March 31, 2023 and 2022, respectively, and total comprehensive income(loss) amounting to \$59,686 thousand and \$151,591 thousand, constituting 18% and 6% of consolidated total comprehensive income (loss) for the three months ended March 31, 2023 and 2022, respectively.

Furthermore, as stated in Note 6(8), the other equity accounted investments of Phison Electronics Corp. and its subsidiaries in its investee companies of \$4,206,938 thousand as of March 31, 2023, and its equity in net earnings on these investee companies of \$(3,706) thousand for the three months ended March 31, 2023, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.



Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Phison Electronics Corp. and its subsidiaries as of March 31, 2023 and 2022, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2023 and 2022 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)

May 5, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with Standards on Auditing as of March 31, 2023 and 2022

Phison Electronics Corp. and subsidiaries

Consolidated Balance Sheets

March 31, 2023, December 31, 2022, and March 31, 2022

(Expressed in Thousands of New Taiwan Dollars)

Assets		March 31, 2023		December 31, 2022		March 31, 2022		Liabilities and Equity		March 31, 2023		December 31, 2022		March 31, 2022	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
Current assets:								Current liabilities:							
1100	Cash and cash equivalents (note 6(1))	\$ 9,723,048	19	17,033,769	29	12,813,839	20	2100	Short-term borrowings (notes 6(13) and 8)	\$ -	-	-	-	1,061,875	2
1110	Financial assets at fair value through profit or loss – current (note 6(2))	938,493	2	785,022	1	1,132,712	2	2130	Contract liabilities – current	94,061	-	146,323	-	282,506	-
1136	Financial assets at amortized cost – current (notes 6(3) and 8)	40,530	-	40,499	-	317,387	1	2170	Accounts payable	2,003,744	4	5,600,107	9	3,394,933	5
1170	Accounts receivable, net (note 6(5))	5,487,521	11	6,037,722	10	7,485,777	12	2180	Accounts payable – related parties (note 7)	201,881	-	578,866	1	2,215,473	4
1180	Accounts receivable – related parties, net (notes 6(5) and 7)	543,200	1	1,199,073	2	2,517,535	4	2200	Other payables (note 6(14))	5,423,866	11	8,939,128	15	9,666,612	15
1200	Other receivables (notes 6(6) and 7)	351,708	-	333,902	1	759,450	1	2230	Tax payable	554,582	1	530,960	1	1,639,775	3
1220	Tax assets	3,528	-	3,497	-	1,017	-	2280	Lease liabilities – current (note 6(11))	44,143	-	46,250	-	41,356	-
130X	Inventories (note 6(7))	21,082,032	41	20,390,375	34	23,780,109	38	2320	Long-term borrowings, current portion (notes 6(16) and 8)	31,143	-	31,050	-	30,872	-
1410	Prepayments	61,942	-	69,271	-	105,799	-	2399	Other current liabilities (notes 6(15), 7 and 9(3))	1,180,470	2	1,726,407	3	1,832,513	3
1479	Other current assets	83,861	-	1,455	-	12,673	-			<u>9,533,890</u>	<u>18</u>	<u>17,599,091</u>	<u>29</u>	<u>20,165,915</u>	<u>32</u>
		<u>38,315,863</u>	<u>74</u>	<u>45,894,585</u>	<u>77</u>	<u>48,926,298</u>	<u>78</u>	Non-Current liabilities:							
Non-current assets:								2530	Bonds payable (note 6(17))	3,449,257	7	3,442,031	6	3,420,022	5
1510	Financial assets at fair value through profit or loss – non-current (note 6(2))	314,050	1	317,347	-	389,709	1	2540	Long-term borrowings (notes 6(16) and 8)	126,092	-	133,882	-	157,070	-
1517	Financial assets at fair value through other comprehensive income – non-current (note 6(4))	471,923	1	431,697	1	736,581	1	2570	Deferred tax liabilities	57,662	-	56,206	-	183,177	-
1550	Investments accounted for using the equity method (note 6(8))	3,080,613	6	3,693,963	6	4,206,938	7	2580	Lease liabilities – non-current (note 6(11))	74,319	-	85,526	-	100,301	-
1600	Property, plant and equipment (notes 6(10) and 8)	7,522,849	15	7,597,761	13	6,865,691	10	2640	Net defined benefit liabilities	115,423	-	114,798	-	105,332	-
1755	Right-of-use assets (note 6(11))	116,756	-	130,076	-	141,014	-	2645	Guarantee deposits received (note 9(3))	918,054	2	926,480	2	1,721,581	3
1780	Intangible assets (note 6(12))	303,123	-	375,336	1	295,888	-			<u>4,740,807</u>	<u>9</u>	<u>4,758,923</u>	<u>8</u>	<u>5,687,483</u>	<u>8</u>
1840	Deferred tax assets	888,576	2	889,157	1	546,632	1	Total liabilities		<u>14,274,697</u>	<u>27</u>	<u>22,358,014</u>	<u>37</u>	<u>25,853,398</u>	<u>40</u>
1900	Other non-current assets (note 9(2))	662,361	1	659,914	1	1,046,712	2	Equity (notes 6(20) and (21)):							
		<u>13,360,251</u>	<u>26</u>	<u>14,095,251</u>	<u>23</u>	<u>14,229,165</u>	<u>22</u>	3100	Common shares	1,996,250	4	1,986,745	3	1,970,740	3
Total assets		<u>\$ 51,676,114</u>	<u>100</u>	<u>59,989,836</u>	<u>100</u>	<u>63,155,463</u>	<u>100</u>	3200	Capital surplus	9,255,937	18	8,970,438	15	7,358,046	12
								3300	Retained earnings	28,311,946	55	28,952,665	48	27,619,073	44
								3400	Other equity interest	(101,500)	-	(216,810)	-	354,206	1
								3500	Treasury shares	(2,061,216)	(4)	(2,061,216)	(3)	-	-
								Total equity		<u>37,401,417</u>	<u>73</u>	<u>37,631,822</u>	<u>63</u>	<u>37,302,065</u>	<u>60</u>
								Total liabilities and equity		<u>\$ 51,676,114</u>	<u>100</u>	<u>59,989,836</u>	<u>100</u>	<u>63,155,463</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with Standards on Auditing

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2023 and 2022

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

		For the three months ended March 31,			
		2023		2022	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue (notes 6(23) and 7)	\$ 10,078,421	100	17,105,859	100
5000	Operating costs (notes 6(7), (24) and 7)	<u>6,865,311</u>	<u>68</u>	<u>11,716,360</u>	<u>68</u>
	Gross profit from operations	3,213,110	32	5,389,499	32
5910	Unrealized profit on transactions with associates	<u>(10,591)</u>	<u>-</u>	<u>5,703</u>	<u>-</u>
5950	Realized gross profit	<u>3,202,519</u>	<u>32</u>	<u>5,395,202</u>	<u>32</u>
	Operating expenses (notes 6(24) and 7):				
6100	Marketing expenses	261,523	3	295,243	2
6200	General and administrative expenses	177,774	2	301,171	2
6300	Research and development expenses	2,000,343	20	2,311,758	14
6450	Expected credit loss (reversal gain) (note 6(5))	<u>(75,501)</u>	<u>(1)</u>	<u>27,492</u>	<u>-</u>
	Total operating expenses	<u>2,364,139</u>	<u>24</u>	<u>2,935,664</u>	<u>18</u>
	Net operating income	<u>838,380</u>	<u>8</u>	<u>2,459,538</u>	<u>14</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(25) and 7)	21,086	-	38,176	-
7020	Other gains and losses (notes 6(9) and (25))	96,909	1	130,264	1
7050	Finance costs (note 6(25))	(8,397)	-	(9,750)	-
7100	Interest income (note 6(25))	43,951	-	8,116	-
7060	Shares of profit (loss) of associates accounted for using the equity method (note 6(8))	<u>(677,821)</u>	<u>(6)</u>	<u>(3,706)</u>	<u>-</u>
		<u>(524,272)</u>	<u>(5)</u>	<u>163,100</u>	<u>1</u>
7900	Profit before tax	314,108	3	2,622,638	15
7950	Income tax expenses (note 6(19))	<u>72,005</u>	<u>1</u>	<u>437,577</u>	<u>2</u>
8200	Net profit for the period	<u>242,103</u>	<u>2</u>	<u>2,185,061</u>	<u>13</u>
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26))	37,979	-	100,554	-
8320	Shares of other comprehensive income of associates accounted for using the equity method	<u>54,650</u>	<u>1</u>	<u>-</u>	<u>-</u>
	Total items that will not be reclassified subsequently to profit or loss	<u>92,629</u>	<u>1</u>	<u>100,554</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	7,276	-	152,069	1
8399	Income tax related to items that may be reclassified subsequently (note 6(19))	<u>(1,455)</u>	<u>-</u>	<u>(1,701)</u>	<u>-</u>
	Total items that may be reclassified subsequently to profit or loss	<u>5,821</u>	<u>-</u>	<u>150,368</u>	<u>1</u>
8300	Other comprehensive income	<u>98,450</u>	<u>1</u>	<u>250,922</u>	<u>1</u>
8500	Total comprehensive income	<u>\$ 340,553</u>	<u>3</u>	<u>2,435,983</u>	<u>14</u>
	Earnings per share (New Taiwan Dollars) (note 6(22)):				
9750	Basic earnings per share	<u>\$ 1.26</u>		<u>11.09</u>	
9850	Diluted earnings per share	<u>\$ 1.21</u>		<u>10.47</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with Standards on Auditing

Phison Electronics Corp. and subsidiaries
Consolidated Statements of Changes in Equity
For the three months ended March 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

	Share capital			Retained earnings				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	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income			Total
Balance at January 1, 2022	\$ 1,970,740	-	1,970,740	7,238,436	5,530,308	155,568	22,310,098	27,995,974	(143,563)	246,847	103,284	-	37,308,434
Net profit for the period	-	-	-	-	-	-	2,185,061	2,185,061	-	-	-	-	2,185,061
Other comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	150,368	100,554	250,922	-	250,922
Total comprehensive income (loss) for the period	-	-	-	-	-	-	2,185,061	2,185,061	150,368	100,554	250,922	-	2,435,983
Appropriation and distribution of retained earnings:													
Cash dividends of common shares	-	-	-	-	-	-	(2,561,962)	(2,561,962)	-	-	-	-	(2,561,962)
Changes in equity of associates accounted for using the equity method	-	-	-	19,582	-	-	-	-	-	-	-	-	19,582
Share-based payments	-	-	-	100,028	-	-	-	-	-	-	-	-	100,028
Balance at March 31, 2022	\$ 1,970,740	-	1,970,740	7,358,046	5,530,308	155,568	21,933,197	27,619,073	6,805	347,401	354,206	-	37,302,065
Balance at January 1, 2023	\$ 1,970,740	16,005	1,986,745	8,970,438	6,347,501	-	22,605,164	28,952,665	27,271	(244,081)	(216,810)	(2,061,216)	37,631,822
Net profit for the period	-	-	-	-	-	-	242,103	242,103	-	-	-	-	242,103
Other comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	5,821	92,629	98,450	-	98,450
Total comprehensive income (loss) for the period	-	-	-	-	-	-	242,103	242,103	5,821	92,629	98,450	-	340,553
Appropriation and distribution of retained earnings:													
Cash dividends of common shares	-	-	-	-	-	-	(865,962)	(865,962)	-	-	-	-	(865,962)
Changes in equity of associates accounted for using the equity method	-	-	-	4,265	-	-	-	-	-	-	-	-	4,265
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(16,860)	(16,860)	-	16,860	16,860	-	-
Share-based payments	-	-	-	74,310	-	-	-	-	-	-	-	-	74,310
Exercise of employee stock options	15,845	(6,340)	9,505	206,924	-	-	-	-	-	-	-	-	216,429
Balance at March 31, 2023	\$ 1,986,585	9,665	1,996,250	9,255,937	6,347,501	-	21,964,445	28,311,946	33,092	(134,592)	(101,500)	(2,061,216)	37,401,417

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with Standards on Auditing

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Cash Flows

For the three months ended March 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31,	
	2023	2022
Cash flows from operating activities:		
Profit before income tax	\$ 314,108	2,622,638
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	172,095	145,608
Amortization expense	131,831	84,741
Expected credit loss (reversal gain)	(75,501)	27,492
Net loss (gain) on financial assets at fair value through profit or loss	(172,859)	128,827
Finance costs	8,397	9,750
Gain on disposal of property, plant and equipment	-	(23)
Interest income	(43,951)	(8,116)
Dividend income	(610)	(11,029)
Share-based payments	74,310	100,028
Shares of loss of associates accounted for using the equity method	677,821	3,706
Gain on disposal of investments accounted for using the equity method	-	(27,689)
Unrealized profit (loss) on transactions with associates	10,591	(5,703)
Unrealized foreign exchange loss (gain)	138,412	(201,395)
Inventory obsolescence reversal gain	(112,507)	(229,538)
Reversal of refund liabilities	(46,762)	(20,234)
Profit from lease modification	(5)	(190)
Gain recognized in bargain purchase transaction	-	(16,289)
Total adjustments to reconcile profit (loss)	761,262	(20,054)
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	1,277,114	(651,892)
Other receivables	(19,780)	(94,740)
Inventories	(579,150)	(3,946,196)
Prepayments	7,329	(80,832)
Other current assets	(82,406)	(9,459)
Contract liabilities	(52,262)	79,462
Accounts payable (including related parties)	(3,974,611)	(3,823,245)
Other payables	(2,415,888)	(886,368)
Other current liabilities	27,125	521
Net defined benefit liabilities	625	435
Total changes in operating assets and liabilities	(5,811,904)	(9,412,314)
Cash outflow generated from operations	(4,736,534)	(6,809,730)
Interest paid	(1,176)	(1,878)
Income taxes paid	(47,832)	(18,173)
Net cash flows used in operating activities	(4,785,542)	(6,829,781)

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with Standards on Auditing

Phison Electronics Corp. and subsidiaries
Consolidated Statements of Cash Flows (Continued)
For the three months ended March 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31,	
	2023	2022
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(2,247)	(1,270)
Acquisition of financial assets at amortized cost	(31)	(30)
Proceeds from disposal of financial assets at amortized cost	-	268,194
Proceeds from disposal of financial assets at fair value through profit or loss	22,685	30
Proceeds from capital reduction of financial assets at fair value through profit or loss	-	7,245
Net cash flow from acquisition of subsidiaries	-	(24,547)
Acquisition of property, plant and equipment	(148,257)	(377,517)
Proceeds from disposal of property, plant and equipment	-	56
Decrease (increase) in refundable deposits	50,750	(41,556)
Acquisition of intangible assets	(59,102)	(63,658)
Increase in prepayments for land and equipment	(8,038)	(386,128)
Interest received	45,929	8,411
Dividends received	610	11,029
Net cash flows used in investing activities	(97,701)	(599,741)
Cash flows from financing activities:		
Increase in short-term loans	-	1,967,656
Decrease in short-term loans	-	(1,366,181)
Repayments of long-term borrowings	(7,697)	(7,694)
Increase (decrease) in guarantee deposits received	(598,635)	2,487,752
Payment of lease liabilities	(12,371)	(13,717)
Cash dividends paid	(1,970,740)	(1,970,740)
Exercise of employee stock options	216,429	-
Net cash flows from (used in) financing activities	(2,373,014)	1,097,076
Effect of exchange rate changes on cash and cash equivalents	(54,464)	105,338
Net decrease in cash and cash equivalents	(7,310,721)	(6,227,108)
Cash and cash equivalents at beginning of period	17,033,769	19,040,947
Cash and cash equivalents at end of period	\$ 9,723,048	12,813,839

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with Standards on Auditing as of March 31, 2023 and 2022

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements
March 31, 2023 and 2022

(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 May 5, 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, 2023:

- 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”

- (2) 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 IFRS 16 “Requirements for Sale and Leaseback Transactions”

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

4. Summary of significant accounting policies

(1) Statement of compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2022. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2022.

(2) Basis of consolidation

Principles of preparation of the consolidated financial statements were the same as those of the consolidated financial statements for the year ended December 31, 2022. For the related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2022.

A. List of subsidiaries in the consolidated financial statements

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

Name investor	Name of subsidiary	Principal activity	Shareholding (%)			Note
			March 31, 2023	December 31, 2022	March 31, 2022	
The Company	Lian Xu Dong Investment Corporation	Investment	100	100	100	
The Company	Phison Electronics Japan Corp.	Sales and service office	100	100	100	
The Company	Emtops Electronics Corp.	Investment	100	100	100	
The Company	Phisontech Electronics Taiwan Corp.	Investment and trade	100	100	100	
The Company	Global Flash Limited	Investment and trade	100	100	100	
The Company	Power Flash (Samoa) Limited	Investment and trade	100	100	100	

Phison Electronics Corp. and subsidiaries
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<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding (%)</u>			<u>Note</u>
			<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>	
The Company	Everspeed Technology Limited	Trade of electronic components	-	-	100	Note 1
The Company	Regis Investment (Samoa) Limited	Investment	100	100	100	
The Company	Nextorage Corporation	R&D, design, manufacture and sale of flash memory application products	100	100	100	Note 2
The Company	Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	100	100	-	Note 3
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100	100	100	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100	100	100	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100	100	100	
Power Flash (Samoa) Limited	Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	100	100	100	Note 4
Everspeed Technology Limited	Memoryexchange Corporation	Manufacture and sale of flash memory related products	-	-	-	Note 5
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100	100	100	
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	100	100	100	

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

<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding (%)</u>			<u>Note</u>
			<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>	
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100	100	100	
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100	100	100	

Note 1: 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.

Note 6: The abovementioned subsidiaries are all non-significant subsidiaries, the financial statements of which have not been reviewed by independent auditors.

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

(3) Employee benefits

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

(4) Income taxes

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

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

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

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

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

The preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2022. For related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2022.

6. Description of significant accounts

Except for the following disclosures, there were no material differences in the disclosures of significant accounts between the interim consolidated financial statements for the current period and the consolidated financial statements for the year ended December 31, 2022. Please refer to Note 6 of consolidated financial statements for the year ended December 31, 2022.

(1) Cash and cash equivalent

	March 31, 2023	December 31, 2022	March 31, 2022
Cash	\$ 145	145	230
Demand deposits and check deposits	7,175,574	11,507,034	7,227,859
Cash equivalents – time deposits	<u>2,547,329</u>	<u>5,526,590</u>	<u>5,585,750</u>
	<u>\$ 9,723,048</u>	<u>17,033,769</u>	<u>12,813,839</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

	March 31, 2023	December 31, 2022	March 31, 2022
Financial assets at fair value through profit or loss – current:			
Beneficiary certificates – open-end funds	\$ 111,064	110,769	474,266
Domestic listed stock (note)	827,079	674,253	654,946
Derivative instruments – convertible bonds (note 6(17))	<u>350</u>	<u>-</u>	<u>3,500</u>
	<u>\$ 938,493</u>	<u>785,022</u>	<u>1,132,712</u>

Phison Electronics Corp. and subsidiaries
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	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>March 31,</u> <u>2022</u>
Financial assets at fair value through profit or loss – non-current:			
Domestic private equity funds	\$ 43,968	34,444	41,181
Domestic unlisted stocks	167,112	174,012	228,179
Foreign unlisted stocks	<u>102,970</u>	<u>108,891</u>	<u>120,349</u>
	<u>\$ 314,050</u>	<u>317,347</u>	<u>389,709</u>

Note: In August 2022, Apacer Technology Inc. issued additional ordinary shares in exchange for the common stock of UD INFO Corp., resulting in the Company to acquire 2,505 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

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>March 31,</u> <u>2022</u>
Segregated foreign exchange deposit account for Offshore Funds	\$ -	-	276,898
Pledged time deposits	<u>40,530</u>	<u>40,499</u>	<u>40,489</u>
	<u>\$ 40,530</u>	<u>40,499</u>	<u>317,387</u>

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

B. The Group estimated that the expected credit risk of the above financial assets is limited and the credit risk of original recognition has not increased.

C. The financial assets mentioned above were pledged as collateral. Please refer to note 8.

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

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>March 31,</u> <u>2022</u>
Domestic unlisted stocks (note)	\$ 224,708	235,752	318,747
Foreign unlisted stocks	<u>247,215</u>	<u>195,945</u>	<u>417,834</u>
	<u>\$ 471,923</u>	<u>431,697</u>	<u>736,581</u>

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

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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 above financial assets mentioned above were pledge as collateral.

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

	March 31, 2023	December 31, 2022	March 31, 2022
Accounts receivable	\$ 5,521,604	6,126,356	7,557,447
Accounts receivable – related parties	544,360	1,221,183	2,521,066
	6,065,964	7,347,539	10,078,513
Less: loss allowance	(35,243)	(110,744)	(75,201)
Accounts receivable, net	<u>\$ 6,030,721</u>	<u>7,236,795</u>	<u>10,003,312</u>

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

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

The following table details the loss allowance of accounts receivable (including related and non-related parties) based on the Group’s allowance matrix.

	March 31, 2023		
	Gross carrying amount	Weighted- average loss rate (%)	Loss allowance
Current	\$ 5,876,422	0.16	9,688
1~60 days past due	169,492	3.35	5,683
61~90 days past due	373	52.28	195
More than 151 days past due	19,677	100.00	19,677
	<u>\$ 6,065,964</u>		<u>35,243</u>

Phison Electronics Corp. and subsidiaries
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	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
	March 31, 2022		
	Gross carrying amount	Weighted- average loss rate (%)	Loss allowance
Current	\$ 9,824,239	0.14	13,469
1~60 days past due	191,896	2.29	4,403
91~120 days past due	10,306	51.01	5,257
121~150 days past due	13,167	100.00	13,167
More than 151 days past due	18,039	100.00	18,039
	\$ 10,057,647		54,335

The Group's analysis of expected credit losses of accounts receivable which there is evidence that full collection is not reasonably expected is as follows:

	March 31, 2022		
	Gross carrying amount	Weighted- average loss rate	Loss allowance
Current	\$ 8,485	100.00%	8,485
1~60 days past due	7,322	100.00%	7,322
61~90 days past due	5,059	100.00%	5,059
	\$ 20,866		20,866

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

	For the three months ended March 31,	
	2023	2022
Balance, beginning of the period	\$ 110,744	47,709
Impairment losses recognized (reversed)	(75,501)	27,492
Balance, end of the period	\$ 35,243	75,201

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.

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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)

March 31, 2023				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ 1,431	1,261	0.22~0.65	Note 1~4

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

March 31, 2022				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ 1,841	1,566	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 March 31, 2023, December 31, 2022, and March 31, 2022, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$38,406 thousand, \$52,651 thousand and \$44,815 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.

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(6) Other receivables

	March 31, 2023	December 31, 2022	March 31, 2022
Tax refund receivable	\$ 236,516	193,916	593,519
Factored accounts receivable	38,406	52,651	44,815
Liquidation refund receivable from investees	-	-	70,991
Others	76,786	87,335	50,125
Less: loss allowance	-	-	-
	<u>\$ 351,708</u>	<u>333,902</u>	<u>759,450</u>

(7) Inventories

	March 31, 2023	December 31, 2022	March 31, 2022
Raw materials	\$ 15,546,785	14,763,313	14,865,551
Work in process	2,465,469	2,427,948	5,538,182
Semi-finished goods	2,756,934	2,972,532	3,047,684
Finished goods	312,844	226,582	328,692
	<u>\$ 21,082,032</u>	<u>20,390,375</u>	<u>23,780,109</u>

The costs of inventories recognized as costs of goods sold for the three month ended March 31, 2023 and 2022 were \$6,865,311 thousand and \$11,716,360 thousand, respectively.

The costs of goods sold for the three month ended March 31, 2023 and 2022 included reversal of inventory obsolescence loss of \$112,507 thousand and \$229,538 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

	March 31, 2023	December 31, 2022	March 31, 2022
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 2,596,196	3,252,782	3,522,334
EpoStar Electronics (BVI) Corporation	261,406	206,796	421,386
Hefei Xinpeng Technology Co., Ltd.	73,536	81,685	128,074
ProGrade Digital Inc.	123,400	126,981	110,789
Microtops Design Corporation	26,075	25,719	24,355
	<u>\$ 3,080,613</u>	<u>3,693,963</u>	<u>4,206,938</u>

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Notes to the Consolidated Financial Statements

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

Name of Associates	Principal Activity	Main Operating Location/ Registered Country	Ownership interest (%)		
			March 31, 2023	December 31, 2022	March 31, 2022
HOSIN Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	China	39.04	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:

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

	March 31, 2023	December 31, 2022	March 31, 2022
Current assets	\$ 13,570,234	14,392,735	9,511,290
Non-current assets	4,900,161	4,912,374	5,195,018
Current liabilities	(10,597,770)	(9,820,783)	(5,858,229)
Non-current liabilities	(1,135,203)	(1,117,050)	(447,933)
Net assets	<u>\$ 6,737,422</u>	<u>8,367,276</u>	<u>8,400,146</u>
		For the three months ended March 31,	
		2023	2022
Operating revenue		<u>\$ 6,112,301</u>	<u>7,242,802</u>
Net profit (loss)		\$ (1,666,470)	53,053
Other comprehensive income (loss)		(3,484)	(1,346)
Total comprehensive income (loss)		<u>\$ (1,669,954)</u>	<u>51,707</u>
		March 31, 2023	December 31, 2022
Summarized information of the carrying amount of significant associates		<u>\$ 2,596,196</u>	<u>3,252,782</u>
			<u>3,522,334</u>

Phison Electronics Corp. and subsidiaries
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	For the three months ended	
	March 31,	
	2023	2022
Attributable to the Group:		
Net profit (loss)	\$ (671,168)	(1,712)
Other comprehensive income (loss)	25,524	86,122
Total comprehensive income (loss)	\$ (645,644)	84,410

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

	March 31,	December 31,	March 31,
	2023	2022	2022
Summarized information of the carrying amount of associates that were not individually material	\$ 484,417	441,181	684,604

	For the three months ended	
	March 31,	
	2023	2022
Attributable to the Group:		
Net profit (loss)	\$ (6,653)	(1,994)
Other comprehensive income (loss)	53,903	2,268
Total comprehensive income (loss)	\$ 47,250	274

C. Pledged

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

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

Investments accounted for using the equity method and its share of profit or loss and other comprehensive income in the first quarter of 2022 were calculated based on the financial statements that have not been reviewed by independent auditors.

(9) Business Combinations

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

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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><u>\$ 303,475</u></u>

B. Net cash outflow of the acquisition of subsidiaries

Consideration paid in cash	\$ 138,483
Less: cash and cash equivalent acquired	<u>(113,936)</u>
	<u><u>\$ 24,547</u></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><u>\$ (16,289)</u></u>

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

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(10) Property, plant and equipment

	<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, 2023	\$ 2,149,285	5,069,347	1,559,637	397,475	46,491	9,222,235
Additions for the period	-	1,988	57,977	13,338	12,533	85,836
Disposal for the period	-	-	(42,240)	(3,295)	-	(45,535)
Reclassification	-	-	381	-	(572)	(191)
Effect of movements in exchange rates	(5)	(181)	(492)	(685)	(3)	(1,366)
Balance at March 31, 2023	<u>\$ 2,149,280</u>	<u>5,071,154</u>	<u>1,575,263</u>	<u>406,833</u>	<u>58,449</u>	<u>9,260,979</u>
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	39,626	7,439	134,377	14,668	124,350	320,460
Acquisitions through business combinations	189	10,841	1,519	23,376	212	36,137
Disposal for the period	-	-	(21,334)	(15,526)	-	(36,860)
Reclassification	-	-	8,342	12,631	(30,882)	(9,909)
Effect of movements in exchange rates	(6)	(265)	766	153	(5)	643
Balance at March 31, 2022	<u>\$ 1,802,629</u>	<u>2,644,532</u>	<u>1,495,234</u>	<u>310,020</u>	<u>2,075,814</u>	<u>8,328,229</u>
Depreciation:						
Balance at January 1, 2023	\$ -	723,512	730,222	170,740	-	1,624,474
Depreciation for the period	-	37,715	97,363	24,638	-	159,716
Disposal for the period	-	-	(42,240)	(3,295)	-	(45,535)
Effect of movements in exchange rates	-	(10)	(205)	(310)	-	(525)
Balance at March 31, 2023	<u>\$ -</u>	<u>761,217</u>	<u>785,140</u>	<u>191,773</u>	<u>-</u>	<u>1,738,130</u>
Balance at January 1, 2022	\$ -	596,723	634,894	135,579	-	1,367,196
Depreciation for the period	-	20,075	92,684	19,057	-	131,816
Disposal for the period	-	-	(21,315)	(15,512)	-	(36,827)
Effect of movements in exchange rates	-	(4)	109	248	-	353
Balance at March 31, 2022	<u>\$ -</u>	<u>616,794</u>	<u>706,372</u>	<u>139,372</u>	<u>-</u>	<u>1,462,538</u>
Carrying amounts:						
Balance at January 1, 2023	<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 March 31, 2023	<u>\$ 2,149,280</u>	<u>4,309,937</u>	<u>790,123</u>	<u>215,060</u>	<u>58,449</u>	<u>7,522,849</u>
Balance at January 1, 2022	<u>\$ 1,762,820</u>	<u>2,029,794</u>	<u>736,670</u>	<u>139,139</u>	<u>1,982,139</u>	<u>6,650,562</u>
Balance at March 31, 2022	<u>\$ 1,802,629</u>	<u>2,027,738</u>	<u>788,862</u>	<u>170,648</u>	<u>2,075,814</u>	<u>6,865,691</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.

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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

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Carrying amounts:				
Balance January 1, 2023	\$ <u>129,437</u>	<u>639</u>	-	<u>130,076</u>
Balance at March 31, 2023	\$ <u>116,225</u>	<u>531</u>	-	<u>116,756</u>
Balance at March 31, 2022	\$ <u>140,589</u>	<u>425</u>	-	<u>141,014</u>

The Group has leased offices in Taipei for operation needs since the first quarter of 2022, therefore, right-of-use assets and lease liabilities of the Group both increased \$100,116 thousand. Except for the aforementioned additions, there was no significant addition, disposal, or recognition and reversal of impairment losses of right-of-use assets of the Group for the three months ended March 31, 2023 and 2022. Please refer to note 6(11) of the consolidated financial statements for the year ended December 31, 2022, for other related information.

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

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
For the three months ended March 31, 2023	\$ <u>12,271</u>	<u>108</u>	-	<u>12,379</u>
For the three months ended March 31, 2022	\$ <u>12,876</u>	<u>94</u>	<u>822</u>	<u>13,792</u>

B. Lease liabilities

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
Current	\$ <u>44,143</u>	<u>46,250</u>	<u>41,356</u>
Non-current	\$ <u>74,319</u>	<u>85,526</u>	<u>100,301</u>

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

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

	For the three months ended	
	March 31,	
	2023	2022
Interest expenses relating to lease liabilities	\$ <u>301</u>	<u>353</u>
Expenses relating to short-term lease	\$ <u>2,439</u>	<u>2,625</u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	\$ <u>245</u>	<u>171</u>

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

	For the three months ended	
	March 31,	
	2023	2022
Total cash outflow for leases	\$ <u>15,356</u>	<u>16,866</u>

C. Other information about leases

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

(12) Intangible assets

	Computer software	Technology License Fees	Total
Carrying amounts:			
Balance at January 1, 2023	\$ <u>318,536</u>	<u>56,800</u>	<u>375,336</u>
Balance at March 31, 2023	\$ <u>261,319</u>	<u>41,804</u>	<u>303,123</u>
Balance at March 31, 2022	\$ <u>249,799</u>	<u>46,089</u>	<u>295,888</u>

There was no significant addition or disposal of intangible assets of the Group for the three months ended March 31, 2023 and 2022. Please refer to note 12 for the amount of amortization for the period. Please refer to note 6(12) of the consolidated financial statements for the year ended December 31, 2022 for the other related information.

(13) Short-term borrowings

	March 31, 2023	December 31, 2022	March 31, 2022
Unsecured bank loans	\$ -	-	1,031,875
Secured bank loans	-	-	30,000
	\$ <u>-</u>	<u>-</u>	<u>1,061,875</u>
Range of interest rates at the end of period (%)	<u>-</u>	<u>-</u>	<u>0.55%~1.22%</u>

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

(14) Other payables

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
Salaries and bonus payable	\$ 3,779,542	6,066,671	5,848,650
Dividend payable (note 6(20))	866,185	1,970,963	2,561,962
Others	778,139	901,494	1,256,000
	<u>\$ 5,423,866</u>	<u>8,939,128</u>	<u>9,666,612</u>

(15) Other current liabilities

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
Refund liabilities	\$ 561,407	620,776	777,670
Guarantee deposits received (note 9(3))	457,421	921,300	858,750
Receipts under custody	92,508	87,669	93,554
Payables for purchases of equipment	25,998	88,419	43,549
Others	43,136	8,243	58,990
	<u>\$ 1,180,470</u>	<u>1,726,407</u>	<u>1,832,513</u>

(16) Long-term borrowings

	<u>March 31, 2023</u>		
	<u>Rate of interest rates at the end of period (%)</u>	<u>Year of maturity</u>	<u>Amount</u>
Secured bank loans	2.25	January, 2028	\$ 157,235
Less: current portion			(31,143)
			<u>\$ 126,092</u>
	<u>December 31, 2022</u>		
	<u>Rate of interest rates at the end of period (%)</u>	<u>Year of maturity</u>	<u>Amount</u>
Secured bank loans	2.125	January, 2028	\$ 164,932
Less: current portion			(31,050)
			<u>\$ 133,882</u>

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	March 31, 2022		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	1.75	January, 2028	\$ 187,942
Less: current portion			<u>(30,872)</u>
			<u>\$ 157,070</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:

	March 31, 2023	December 31, 2022	March 31, 2022
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000	3,500,000
Unamortized discounted corporate bonds payable	<u>(50,743)</u>	<u>(57,969)</u>	<u>(79,978)</u>
Bonds payable at the end of period	<u>\$ 3,449,257</u>	<u>3,442,031</u>	<u>3,420,022</u>
Embedded derivative instruments—call and conversion options, included in financial assets at fair value through profit or loss—current	<u>\$ 350</u>	<u>-</u>	<u>3,500</u>
Embedded derivative instruments—Equity component—conversion options, included in capital surplus—stock options	<u>\$ 102,369</u>	<u>102,369</u>	<u>102,369</u>
		For the three months ended March 31,	
		2023	2022
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses		<u>\$ 350</u>	<u>(1,400)</u>
Interest expense		<u>\$ 7,226</u>	<u>7,167</u>

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

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2022 and 2021.

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

	For the three months ended	
	March 31,	
	2023	2022
Pension	\$ 1,234	960

B. Defined contribution plans

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

	For the three months ended	
	March 31,	
	2023	2022
Pension	\$ 66,085	47,915

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

	For the three months ended	
	March 31,	
	2023	2022
Pension	\$ 2,371	1,166

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(19) Income tax

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

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

	For the three months ended March 31,	
	<u>2023</u>	<u>2022</u>
Current tax expense	<u>\$ 72,005</u>	<u>437,577</u>

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

	For the three months ended March 31,	
	<u>2023</u>	<u>2022</u>
Exchange differences on translation of foreign financial statements	<u>\$ 1,455</u>	<u>1,701</u>

D. Examination and approval

The income tax returns of the Company had been examined and assessed by the tax authority through 2020. Furthermore, the income tax returns of other domestic subsidiaries had been examined and assessed by the tax authority through 2021.

(20) Equity

A. Common shares

As of March 31, 2023, December 31, 2022, and March 31, 2022, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The registered issued common shares amounted to \$1,986,585 thousand, \$1,970,740 thousand and \$1,970,740 thousand, respectively, with par value of NT\$10 per share.

As of March 31, 2023, the Company issued 1,584 thousand new common shares, with a par value of \$10 per share, as employee stock options. As of March 31, 2023 and December 31, 2022, the registration procedures for the amounts of \$9,665 thousand and \$16,005 thousand, respectively, recognized as advance receipts for share capital, has yet to be completed.

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The reconciliation of number of outstanding shares of the Company for the three months ended March 31, 2023 and 2022, respectively were as follows:

(Unit: Shares in Thousands)

	For the three months ended	
	March 31,	
	2023	2022
Balance, beginning of the period	191,815	197,074
Employee share options exercised	950	-
Balance, end of the period	192,765	197,074

B. Capital surplus

	March 31,	December 31,	March 31,
	2023	2022	2022
Additional paid-in capital	\$ 6,908,798	6,597,101	6,237,434
Changes in equities of associates accounted for using the equity method	1,284,914	1,280,649	288,107
Difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758	148,758
Changes in ownships interest in subsidiaries	1,944	1,944	1,944
Employee share options	808,927	839,390	579,207
Due to recognition of equity component of convertible bonds	102,369	102,369	102,369
Expired employee stock options	227	227	227
	\$ 9,255,937	8,970,438	7,358,046

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.

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

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

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

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

The appropriation of 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 (note)
Legal reserve	149,748	399,192
Special reserve	216,810	-

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

Note: The actual allocated cash dividends of NT\$10,277,465.6 in the first half of 2022 was due to the treasury shares, distributed as employee stock options, that were bought back by the Company.

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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)

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

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 three months ended March 31,	
	2023	2022
Balance at January 1	\$ 27,271	(143,563)
Foreign exchange differences (net of tax)	5,821	150,368
Balance at March 31	\$ 33,092	6,805

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

	For the three months ended March 31,	
	2023	2022
Balance at January 1	\$ (244,081)	246,847
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	92,629	100,554
Disposal for the period	16,860	-
Balance at March 31	\$ (134,592)	347,401

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(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 March 31, 2023, the information related to the employee share options was as follows:

<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>
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
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 \$74,310 thousand and \$100,028 thousand for the three months ended March 31, 2023 and 2022, respectively.

Weighted-average assumptions were as follows:

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

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

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Information related to employee share options was as follows:

A. 2022 First employee share options

	For the three months ended March 31, 2023	
Employee share options	Number of Options (In Thousands of Units)	Weighted- average exercise price (NTD)
Outstanding at January 1	5,969	\$ 284.40
Granted during the period	-	-
Exercised during the period	-	-
Forfeited during the period	(7)	-
Outstanding at March 31	5,962	284.40
Exercisable at March 31	-	

As of March 31, 2023, the weighted-average remaining contractual life for outstanding option were 3.44 years.

B. 2021 First employee share options

	For the three months ended March 31, 2022	
Employee share options	Number of Options (In Thousands of Units)	Weighted- average exercise price (NTD)
Outstanding at January 1	5,987	\$ 404.50
Granted during the period	-	-
Exercised during the period	-	-
Forfeited during the period	(30)	-
Outstanding at March 31	5,957	404.50
Exercisable at March 31	-	

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C. 2020 First employee share options

<u>Employee share options</u>	For the three months ended March 31,			
	2023		2022	
	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	4,642	\$ 227.70	5,782	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(705)	227.70	-	-
Forfeited during the period	(6)	-	(7)	-
Outstanding at March 31	3,931	227.70	5,775	243.30
Exercisable at March 31	1,056		-	

As of March 31, 2023 and 2022, the weighted-average remaining contractual life for outstanding option were 0.5 and 1.50 years, respectively.

D. 2019 Second employee share options

<u>Employee share options</u>	For the three months ended March 31,			
	2023		2022	
	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	1,480	\$ 227.70	1,940	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(246)	227.70	-	-
Forfeited during the period	-	-	(2)	-
Outstanding at March 31	1,234	227.70	1,938	243.30
Exercisable at March 31	266		-	

As of March 31, 2023 and 2022, the weighted-average remaining contractual life for outstanding option, were 0.5 and 1.50 years, respectively.

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(22) Earnings per share

A. Basic earnings per share

	For the three months ended March 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 242,103	2,185,061
Weighted-average number of shares outstanding during the year (in thousands of shares)	192,254	197,074
Basic earnings per share (NTD)	\$ 1.26	11.09

B. Diluted earnings per share

	For the three months ended March 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 242,103	2,185,061
Effect of dilutive potential ordinary shares		
Convertible bonds	5,501	4,613
Net profit attributable to ordinary shareholders of the Company	\$ 247,604	2,189,674
Weighted average number of shares outstanding during the year (in thousands of shares)	192,254	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	2,722	3,700
Employees' compensation	2,487	2,049
Effect of conversion of convertible bonds	6,723	6,292
	204,186	209,115
Diluted earnings per share (NTD)	\$ 1.21	10.47

(23) Operating revenue

	For the three months ended March 31,	
	2023	2022
Primary geographical markets:		
Asia	\$ 7,255,328	14,135,491
America	2,390,611	2,249,612
Europe	420,462	695,901
Australia	12,020	24,629
Others	-	226
	\$ 10,078,421	17,105,859

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	For the three months ended	
	March 31,	
	2023	2022
Major product categories:		
Flash memory module products	\$ 7,531,217	12,503,708
Controllers	1,780,740	3,776,280
Integrated Circuit	287,116	447,997
Others	479,348	377,874
	<u>\$ 10,078,421</u>	<u>17,105,859</u>

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

(24) Employees' compensation and remuneration of directors

The Company accrued 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 employees' compensation and remuneration of directors were as follows:

	For the three months ended	
	March 31,	
	2023	2022
Employees' compensation	<u>\$ 34,230</u>	<u>291,852</u>
Remuneration of directors	<u>\$ 1,711</u>	<u>14,593</u>

The employees' compensation and remuneration of directors for the year ended December 31, 2022, which have been approved by the Company's Board of Directors on March 15, 2023, was as follows:

	2022	
	Cash	Share
	Employees' compensation	\$ 1,000,000
Remuneration of directors	35,000	-

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, 2022.

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

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(25) Non-operating income and expenses

A. Interest income

	For the three months ended March 31,	
	2023	2022
Interest income from bank deposits	\$ 43,951	8,108
Others	-	8
	\$ 43,951	8,116

B. Other income

	For the three months ended March 31,	
	2023	2022
Rent income	\$ 5,741	5,625
Dividend income	610	11,029
Gain on a bargain purchase (note 6(9))	-	16,289
Others	14,735	5,233
	\$ 21,086	38,176

C. Other gains and losses

	For the three months ended March 31,	
	2023	2022
Gains on disposal of investments accounted for using the equity method (note 6(9))	\$ -	27,689
Net foreign exchange gains (losses)	(75,935)	231,189
Gains (Losses) on financial assets at fair value through profit or loss	172,859	(128,827)
Others	(15)	213
	\$ 96,909	130,264

D. Finance costs

	For the three months ended March 31,	
	2023	2022
Interest on bank loans	\$ 854	2,209
Interest on lease liabilities	301	353
Interest on convertible bond	7,226	7,167
Others	16	21
	\$ 8,397	9,750

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(26) Financial instruments

A. Categories of financial instruments

	March 31, 2023	December 31, 2022	March 31, 2022
Financial assets			
Financial assets at FVTPL (current and non-current)	\$ 1,252,543	1,102,369	1,522,421
Financial assets at amortized cost (Note 1)	16,745,118	25,249,286	23,893,988
Financial assets at FVTOCI	471,923	431,697	736,581
	\$ 18,469,584	26,783,352	26,152,990
Financial liabilities			
Financial liabilities at amortized cost (Note 2)	\$ 12,611,458	20,572,844	22,527,188

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

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

B. Financial risk management objectives and policies

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

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

C. Market risk

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

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(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:

	March 31, 2023			December 31, 2022			March 31, 2022		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	300,597	30.450	9,153,192	438,421	30.710	13,463,913	457,352	28.625	13,091,690
<u>Non-Monetary items</u>									
CNY	602,512	4.431	2,669,732	756,458	4.408	3,334,467	810,122	4.506	3,650,408
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	98,895	30.450	3,011,348	231,543	30.710	7,110,673	302,485	28.625	8,658,645

(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 for the three months ended March 31, 2023 and 2022, would have increased or decreased the net profit before income tax by \$307,092 thousand and \$221,652 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities. The details of the net foreign currency exchange gains (losses) (including realized and unrealized) were as follows:

For the three months ended	
March 31,	
2023	2022
\$ (75,935)	231,189

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(b) Interest rate risk

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

If interest rates had been 0.25% basis point higher and all other variables were held constant, the Group's net profit before income tax for the three months ended March 31, 2023 and 2022 would have increased by \$4,320 thousand and \$4,330 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 three months ended March 31, 2023 and 2022 would have increased or decreased by \$125,254 thousand and \$152,242 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 three months ended March 31, 2023 and 2022 would have increased or decreased by \$47,192 thousand and \$73,658 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

D. Concentration of credit risk

(a) Accounts receivable

The major customers of the Group are in the electronics industry and the Group usually grants credit limits to customers in accordance with credit policy, therefore, the credit risk of the Group is mainly affected by the electronics industry. However, the Group mostly sells products to customers with good reputation and continuously monitors the financial situation of customers to monitor the significant loss from credit risk. As of March 31, 2023, December 31, 2022, and March 31, 2022, 30%, 36% and 36%, respectively, of accounts receivable were from top five customers, so there was no significant concentration of credit risk. In addition, the Group periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

(b) Cash and cash equivalents

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

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(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.

	<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>
March 31, 2023					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 9,004,966	(9,004,966)	(8,086,912)	(916,790)	(1,264)
Lease liabilities (current and non-current)	118,462	(119,971)	(44,998)	(74,973)	-
Bonds payable	3,449,257	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	<u>157,235</u>	<u>(166,081)</u>	<u>(34,355)</u>	<u>(131,726)</u>	<u>-</u>
	<u>\$ 12,729,920</u>	<u>(12,791,018)</u>	<u>(8,166,265)</u>	<u>(4,623,489)</u>	<u>(1,264)</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>
March 31, 2022					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 17,857,349	(17,857,349)	(16,135,768)	(1,721,581)	-
Lease liabilities (current and non-current)	141,657	(143,331)	(42,144)	(101,187)	-
Bonds payable	3,420,022	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	217,942	(227,898)	(63,977)	(135,659)	(28,262)
Fixed interest rate liabilities	<u>1,031,875</u>	<u>(1,032,935)</u>	<u>(1,032,935)</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,668,845</u>	<u>(22,761,513)</u>	<u>(17,274,824)</u>	<u>(5,458,427)</u>	<u>(28,262)</u>

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

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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).

(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:

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 827,079	-	-	827,079
Domestic unlisted stocks	-	-	167,112	167,112
Foreign unlisted stocks	-	-	102,970	102,970
Domestic private equity funds	-	-	43,968	43,968
Beneficiary certificates—open-end funds	111,064	-	-	111,064
Derivative instruments—convertible bonds	-	-	350	350
	<u>\$ 938,143</u>	<u>-</u>	<u>314,400</u>	<u>1,252,543</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	224,708	224,708
Foreign unlisted stocks	-	-	247,215	247,215
	<u>\$ -</u>	<u>-</u>	<u>471,923</u>	<u>471,923</u>

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		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		110,769	-	-	110,769
	\$	785,022	-	317,347	1,102,369
Financial assets at fair value through other comprehensive income					
Domestic unlisted stocks	\$	-	-	235,752	235,752
Foreign unlisted stocks		-	-	195,945	195,945
	\$	-	-	431,697	431,697
		March 31, 2022			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Domestic listed stocks	\$	654,946	-	-	654,946
Domestic unlisted stocks		-	-	228,179	228,179
Foreign unlisted stocks		-	-	120,349	120,349
Domestic private equity funds		-	-	41,181	41,181
Beneficiary certificates—open-end funds		474,266	-	-	474,266
Derivative instruments—convertible bonds		-	-	3,500	3,500
	\$	1,129,212	-	393,209	1,522,421
Financial assets at fair value through other comprehensive income					
Domestic unlisted stocks	\$	-	-	318,747	318,747
Foreign unlisted stocks		-	-	417,834	417,834
	\$	-	-	736,581	736,581

There were no transfers between Levels 1 and 2 for the three months ended March 31, 2023 and 2022.

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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, 2023	\$ 34,444	-	282,903	431,697	749,044
Recognized in profit or loss	9,524	350	(12,821)	-	(2,947)
Recognized in other comprehensive income	-	-	-	37,979	37,979
Additions for the period	-	-	-	2,247	2,247
March 31, 2023	<u>\$ 43,968</u>	<u>350</u>	<u>270,082</u>	<u>471,923</u>	<u>786,323</u>
January 1, 2022	\$ 39,909	4,900	411,660	634,757	1,091,226
Recognized in profit or loss	1,272	(1,400)	(55,857)	-	(55,985)
Recognized in other comprehensive income	-	-	-	100,554	100,554
Additions for the period	-	-	-	1,270	1,270
Disposal and proceeds from capital reduction	-	-	(7,275)	-	(7,275)
March 31, 2022	<u>\$ 41,181</u>	<u>3,500</u>	<u>348,528</u>	<u>736,581</u>	<u>1,129,790</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, derivate 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.

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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 (March 31, 2023: 14.92%~30%, December 31, 2022: 7.69%~30% and March 31, 2022: 15%~27.22%) 	<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 (March 31, 2023: 1.6%, December 31, 2022: 1.6% and March 31, 2022: 2.5%) · Weighted-average cost of capital (March 31, 2023: 6.25%~12.11%, December 31, 2022: 6.25%~12.11% and March 31, 2022: 7.02%~9.59%) · Discount for lack of marketability (March 31, 2023, December 31, 2022 and March 31, 2022: 15%) · Discount for non-controlling interest (March 31, 2023, December 31, 2022 and March 31, 2022: 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 (March 31, 2023, December 31, 2022 and March 31, 2022: 10%) · Discount for non-controlling interest (March 31, 2023, December 31, 2022 and March 31, 2022: 10%) 	No applicable

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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 March 31, 2023, December 31, 2022, and March 31, 2022, was 36.91%, 38.59% and 43.20%, respectively.

(27) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2022. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2022. Please refer to Note 6(27) of the consolidated financial statements for the year ended December 31, 2022 for related information.

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

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

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

	January 1, 2023	Cash flows	Foreign exchange movement and others	March 31, 2023
Bonds payable	\$ 3,442,031	-	7,226	3,449,257
Long-term borrowings (including current portion)	164,932	(7,697)	-	157,235
Lease liabilities (current and non-current)	131,776	(12,371)	(943)	118,462
Guarantee deposits received (current and non-current)	1,847,780	(598,635)	126,330	1,375,475
Total liabilities from financing activities	<u>\$ 5,586,519</u>	<u>(618,703)</u>	<u>132,613</u>	<u>5,100,429</u>

	January 1, 2022	Cash flows	Foreign exchange movement and others	March 31, 2022
Short-term borrowings	\$ 439,216	601,475	21,184	1,061,875
Bonds payable	3,412,855	-	7,167	3,420,022
Long-term borrowings (including current portion)	195,636	(7,694)	-	187,942
Lease liabilities (current and non-current)	40,030	(13,717)	115,344	141,657
			(Note)	
Guarantee deposits received (current and non-current)	4,109	2,487,752	88,470	2,580,331
Total liabilities from financing activities	<u>\$ 4,091,846</u>	<u>3,067,816</u>	<u>232,165</u>	<u>7,391,827</u>

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

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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 sub-subsiidiary
Hefei Core Storage Electronic Limited	Hosin Global SZ's subsidiary
Hefei Kaimeng Technology Co., Ltd.	Hosin Global SZ's sub-subsiidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
Hefei Datang Storage Technology Co., Ltd.	Hefei Xinpeng's subsidiary
ProGrade Digital, Inc.	Associate
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
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

<u>Related Party Category / Name</u>	For the three months ended	
	March 31,	
	<u>2023</u>	<u>2022</u>
Associates	\$ 346,669	2,086,887
Other related parties	405,286	1,040,078
	<u>\$ 751,955</u>	<u>3,126,965</u>

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The credit terms to related parties were ranged from T/T in advance 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

Related Party Category / Name	For the three months ended March 31,	
	2023	2022
Other related parties-Kioxia Taiwan Company	\$ 3,357,920	4,453,281
	\$ 3,357,920	4,453,281

(b) Processing costs

Related Party Category / Name	For the three months ended March 31,	
	2023	2022
Other related parties	\$ -	605,326
	\$ -	605,326

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

C. Receivable from related parties

Related Party Category / Name	March 31, 2023	December 31, 2022	March 31, 2022
Associates- Hosin Global Electronics Co., Ltd. (HK)	\$ 164,814	235,530	1,142,478
Associates	109,664	417,838	546,069
Other related parties	269,882	567,815	832,519
	544,360	1,221,183	2,521,066
Less: Loss allowance	(1,160)	(22,110)	(3,531)
	\$ 543,200	1,199,073	2,517,535

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

Related Party Category / Name	March 31, 2023	December 31, 2022	March 31, 2022
Other related parties-Kioxia Taiwan Company	\$ 201,881	578,866	1,947,409
Other related parties	-	-	268,064
	\$ 201,881	578,866	2,215,473

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E. Other transactions

<u>Account Name</u>	<u>Related Party Category / Name</u>	For the three months ended	
		March 31,	
		<u>2023</u>	<u>2022</u>
Operating costs	Other related parties	\$ <u>226</u>	<u>1,365</u>
Operating expenses	Associates	\$ 88,094	64,066
	Other related parties	<u>380</u>	<u>3,091</u>
		<u>\$ 88,474</u>	<u>67,157</u>
Non-operating incomes	Associates	\$ 231	320
	Other related parties	<u>10</u>	<u>100</u>
		<u>\$ 241</u>	<u>420</u>

As of March 31, 2023, December 31, 2022, and March 31, 2022, the receivables arising from abovementioned transactions were \$81 thousand, \$81 thousand and \$3,564 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$30,146 thousand, \$399 thousand and \$54,961 thousand, respectively (recognized as other current liabilities).

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

	For the three months ended	
	March 31,	
	<u>2023</u>	<u>2022</u>
Short-term employee benefits	\$ 24,599	137,232
Post-employment benefits	400	451
Share-based payments	<u>3,614</u>	<u>14,234</u>
	<u>\$ 28,613</u>	<u>151,917</u>

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

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

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8. Pledged assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
Property, plant and equipment	As collateral for loans and finance facilities	\$ 514,709	517,906	527,497
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	40,530	40,499	40,489
		<u>\$ 555,239</u>	<u>558,405</u>	<u>567,986</u>

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
Unused letters of credit	<u>\$ 1,160,000</u>	<u>1,160,000</u>	<u>1,160,000</u>

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
	<u>\$ -</u>	<u>-</u>	<u>249,105</u>

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
	<u>\$ 26,400</u>	<u>26,400</u>	<u>-</u>

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2022</u>
	<u>\$ 1,000</u>	<u>1,000</u>	<u>-</u>

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

(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 March 31, 2023, the Group has paid US\$18,480 thousand of guarantee deposit (recognized as other noncurrent 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. As of March 31, 2023, the guarantee deposits received were classified as current liabilities of \$456,750 thousand (recognized as other current liabilities) and non-current liabilities of \$913,500 thousand (recognized as guarantee deposits received) based on the expected repayment period.

10. Losses due to major disasters: None.

11. Subsequent events: None.

12. Other

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

By item	By function	For the three months ended March 31					
		2023			2022		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		184,347	1,457,105	1,641,452	218,338	1,950,767	2,169,105
Labor and health insurance		21,472	132,998	154,470	21,493	104,265	125,758
Pension		7,973	61,717	69,690	8,150	41,891	50,041
Others		8,752	41,355	50,107	10,985	37,498	48,483
Depreciation		50,716	121,379	172,095	41,709	103,899	145,608
Amortization		486	131,345	131,831	141	84,600	84,741

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

- A. To ask to remove Mr. K.S. Pua from the Company’s board director position (“Removal Action”).
- B. To claim monetary damage amounting New Taiwan Dollars \$697,389 thousand against the Company, its board of directors and other co-defendants on behalf of certain investors (“Class Action”).

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

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.

C. Securities held as of March 31, 2023 (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 properties at costs of at least NT\$300 million or 20% of the paid-in capital: None.

F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 2.

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 3.

I. Trading in derivative instruments: Please refer to Notes 6(2).

J. Business relationships and significant intercompany transactions: Please refer to Table 4.

(2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 5.

(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 6.

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

B. Limitation on investment in Mainland China: Please refer to Table 6.

C. Significant transactions:

For the three months ended March 31, 2023, the significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.

(4) Major shareholders:

(in units of shares)

Shareholder's Name	Shareholding	Shares	Percentage
Trust Investment Account of KIOXIA Corporation by First Bank		19,821,112	9.92 %

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

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

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

Phison Electronics Corp. and Subsidiaries
Securities held as of March 31, 2023 (excluding investment in subsidiaries, associates and joint ventures)
March 31, 2023

Table 1

(Shares in Thousands /Amounts in Thousands)

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
The Company	<u>Common shares</u>							
	Apacer Technology Inc.	-	Financial assets at fair value through profit or loss – current	12,555	647,817	10.23	647,817	
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	150,762	0.89	150,762	
	Acer Synergy Tech Corp.	-	Same as above	300	<u>28,500</u>	1.50	28,500	
					<u>827,079</u>			
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	5,355	115,547	11.11	115,547	
	Taiwania Capital Buffalo Fund Co., Ltd. (formerly known as Taishan Buffalo Investment Co., Ltd.)	-	Same as above	46,300	36,104	1.08	36,104	
	Innorich Venture Capital Corp.	-	Same as above	3,000	15,461	5.61	15,461	
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	<u>6,182</u>	0.67	6,182	
					<u>173,294</u>			

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
The Company	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at fair value through other comprehensive income-non-current	11,966	172,130	17.16	172,130	
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	63,783	2.92	63,783	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	19,973	19.00	19,973	
	Gomore Inc.	-	Same as above	16,925	11,164	1.86	11,164	
	H3 Platform, Inc.	-	Same as above	18,400	2,160	12.14	2,160	
	Gospal Ltd.	-	Same as above	811,857	3,499	3.19	3,499	
	AppWorks Fund IV L.P.	-	Same as above	31,500	31,500	9.86	31,500	
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.66	-	
	GeoThings, Inc.	-	Same as above	150	-	3.13	-	
	Ironyun Incorporated	-	Same as above	5,000	-	2.94	-	
					<u>304,209</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>43,968</u>	3.78	43,968	

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Lian Xu Dong Investment Corporation	<u>Common shares</u>							
	Translink Capital Partners III L.P.	-	Financial assets at fair value through profit or loss – non-current	1,500	53,926	1.18	53,926	
	Translink Capital Partners IV L.P.	-	Same as above	930	42,862	0.59	42,862	
					<u>96,788</u>			
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income – non-current	2,111	30,439	4.75	30,439	
	Translink Capital Partners V, L.P.	-	Same as above	930	27,823	1.93	27,823	
	Taiwania Capital Buffalo Fund V, L.P.	-	Same as above	50,000	39,706	3.19	39,706	
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	22,596	7.39	22,596	
	New Future III Limited Partnership	-	Same as above	28,003	22,357	5.12	22,357	
	Omni Media International Incorporation	-	Same as above	1,714	13,063	2.60	13,063	
					<u>155,984</u>			
Emtops Electronics Corporation	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income – non-current	-	-	19.00	-	

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Phisontech Electronics	<u>Beneficiary certificates – open-end funds</u>							
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss – current	167	30,294	-	30,294	
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,179	-	20,179	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,195	-	20,195	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,199	-	20,199	
	Capital Money Market Fund	-	Same as above	1,229	20,197	-	20,197	
					<u>111,064</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>11,730</u>	12.53	11,730	

Phison Electronics Corp. and Subsidiaries

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

For the three months ended March 31, 2023

Table 2

(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	3,357,920	56	Net 30 days after monthly closing	None	None	(201,881)	(10)	
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	113,067	2	Net 30 days after monthly closing	None	None	(44,856)	(2)	Note 2
	Apacer Technology Inc.	The Company is its director	Sales	(202,817)	(2)	Net 45 days after monthly closing	None	None	156,075	3	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(165,336)	(2)	Net 45 days after monthly closing	None	None	164,534	3	
	Nextorage Corporation	Subsidiary	Sales	(162,196)	(2)	Net 60 days after monthly closing	None	None	121,718	2	Note 2

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
March 31, 2023

Table 3

(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	156,075	5.59	-	-	69,698	266	Note 2
	Nextorage Corporation	Subsidiary	121,718	6.75	-	-	72,394	-	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	164,534	3.38	-	-	12,165	280	

Note 1: Information as of April 30, 2023.

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

Phison Electronics Corp. and Subsidiaries
Business relationships and significant intercompany transactions
For the three months ended March 31, 2023

Table 4

(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	Super Storage Technology Corporation	1	Processing cost	113,067	General trading terms	1.12	
			1	Accounts payable	44,856	General trading terms	0.09	
			1	Right-of-use assets	11,838	General trading terms	0.02	
		Phison Technology Inc.	1	Lease liabilities	11,894	General trading terms	0.02	
			1	Sales	41,378	General trading terms	0.41	
			1	Accounts receivable	16,128	General trading terms	0.03	
			1	Marketing expenses	93,763	General trading terms	0.93	
		Nextorage Corporation	1	Other payables	32,919	General trading terms	0.06	
			1	Sales	162,196	General trading terms	1.61	
			1	Accounts receivable	121,718	General trading terms	0.24	
			Power Storage Technology (Shenzhen) Limited	1	Marketing expenses	12,585	General trading terms	0.12
				1	Other payables	12,500	General trading terms	0.02

Note 1: 1. Parent Company to its subsidiaries

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

Phison Electronics Corp. and Subsidiaries
Information on Investees (Excluding Information on Investees in Mainland China)
For the three months ended March 31, 2023

Table 5

(Amount in Thousands)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2023			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				March 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)	Carrying Value			
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	2,220,952	(455,643)	(455,643)	Subsidiary and note 2
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	932,555	(221,481)	(221,481)	Subsidiary and note 2
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	581,363	55,000,000	100.00	717,634	8,873	8,873	Subsidiary and note 2
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	503,305	(6,502)	(6,502)	Subsidiary and note 2
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	261,406	(134)	(41)	Investee accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	388,596	(3,616)	(3,616)	Subsidiary and note 2
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	219,715	219,715	12,000	100.00	426,624	15,814	15,814	Subsidiary and note 2
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	148,776	1,270	1,270	Subsidiary and note 2
ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	123,400	10,023	2,878	Investee accounted for using the equity method	

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2023			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				March 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)	Carrying Value			
Lian Xu Dong Investment Corporation Emtops Electronics Corporation Phisontech Electronics Taiwan Corp. Global Flash Limited Power Flash (Samoa) Limited Regis Investment (Samoa) Limited	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	29,272	471	471	Subsidiary and note 2
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	8,768	8,768	2,299,990	100.00	8,424	(94)	(94)	Subsidiary and note 2
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	26,075	727	356	Investee accounted for using the equity method
	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	25,762	(1,357)	Note 1	Sub-Subsidiary and note 2
	Phison Technology Inc.	USA	Sales and service office	90,419	90,419	3,000,000	100.00	123,458	(3,871)	Note 1	Sub-subsidiary and note 2
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	-	-	10	-	-	(94)	Note 1	Subsidiary and note 2
	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	598,124	8,652	Note 1	Sub-subsidiary and note 2
	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	2,195,028	(456,012)	Note 1	Sub-subsidiary and note 2
Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	97,251	932	Note 1	Sub-subsidiary and note 2	
RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	944,527	(221,466)	Note 1	Sub-subsidiary and note 2	

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

Phison Electronics Corp. and Subsidiaries
Information on Investment in Mainland China
For the three months ended March 31, 2023

Table 6

(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, 2023	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of March 31, 2023	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	(9,837)	100.00	(9,837)	82,208	-	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)	-	-	-	-	(40,633)	24.23	(9,846)	73,536	-	
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	(1,666,470)	39.04	(671,167)	2,596,196	-	
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	392	100.00	392	45,118	-	Note 3

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of March 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 2)
669,125	1,380,908	22,440,850

Note 1: Method of investment.

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

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

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