

Phison Electronics Corp. and Subsidiaries

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2023 and 2022**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Phison Electronics Corp. as of and for the year ended December 31, 2023 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements. " endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Phison Electronics Corp. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Phison Electronics Corp.
Chairman: Wee-Kuan Gan
Date: March 8, 2024.



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Phison Electronics Corp.:

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) and the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Revenue recognition

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



Description of key audit matter:

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

How the matter was addressed in our audit:

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

2. Valuation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

Other Matter

Phison Electronics Corp. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2023 and 2022, on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chien-Hui Lu and An-Chih Cheng.

KPMG

Taipei, Taiwan (Republic of China)
March 8, 2024

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2023		December 31, 2022		Liabilities and Equity		December 31, 2023		December 31, 2022	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(1))	\$ 14,220,367	22	17,033,769	29	2100	Short-term borrowings (notes 6(13) and 8)	\$ 2,106,363	3	-	-
1110	Financial assets at fair value through profit or loss—current (note 6(2))	980,757	2	785,022	1	2130	Contract liabilities—current	132,965	-	146,323	-
1136	Financial assets at amortized cost—current (notes 6(3) and 8)	40,568	-	40,499	-	2170	Accounts payable	5,478,643	8	5,600,107	9
1170	Accounts receivable, net (note 6(5))	7,814,027	12	6,037,722	10	2180	Accounts payable—related parties (note 7)	1,028,950	2	578,866	1
1180	Accounts receivable—related parties, net (notes 6(5) and 7)	1,807,764	3	1,199,073	2	2200	Other payables (note 6(14))	7,563,165	12	8,939,128	15
1200	Other receivables (notes 6(6) and 7)	418,775	1	333,902	1	2230	Tax payable	499,194	1	530,960	1
1220	Tax assets	10,345	-	3,497	-	2280	Lease liabilities—current (note 6(11))	64,400	-	46,250	-
130X	Inventories (note 6(7))	24,410,405	37	20,390,375	34	2320	Long-term borrowings, current portion (notes 6(16), (17) and 8)	3,498,863	5	31,050	-
1410	Prepayments	115,036	-	69,271	-	2399	Other current liabilities (notes 6(15), 7 and 9(3))	<u>1,428,880</u>	<u>3</u>	<u>1,726,407</u>	<u>3</u>
1479	Other current assets	<u>1,627</u>	<u>-</u>	<u>1,455</u>	<u>-</u>			<u>21,801,423</u>	<u>34</u>	<u>17,599,091</u>	<u>29</u>
		<u>49,819,671</u>	<u>77</u>	<u>45,894,585</u>	<u>77</u>	Non-Current liabilities:					
Non-current assets:						2530	Bonds payable (note 6(17))	-	-	3,442,031	6
1510	Financial assets at fair value through profit or loss—non-current (note 6(2))	242,257	-	317,347	-	2540	Long-term borrowings (notes 6(16) and 8)	88,513	-	133,882	-
1517	Financial assets at fair value through other comprehensive income—non-current (note 6(4))	457,457	1	431,697	1	2570	Deferred tax liabilities (note 6(19))	76,736	-	56,206	-
1550	Investments accounted for using the equity method (note 6(8))	4,062,871	6	3,693,963	6	2580	Lease liabilities—non-current (note 6(11))	83,731	-	85,526	-
1600	Property, plant and equipment (notes 6(10), 7 and 8)	7,447,729	12	7,597,761	13	2640	Net defined benefit liabilities (note 6(18))	118,222	-	114,798	-
1755	Right-of-use assets (note 6(11))	95,345	-	130,076	-	2645	Guarantee deposits received (note 9(3))	<u>5,746</u>	<u>-</u>	<u>926,480</u>	<u>2</u>
1780	Intangible assets (note 6(12))	234,303	-	375,336	1			<u>372,948</u>	<u>-</u>	<u>4,758,923</u>	<u>8</u>
1840	Deferred tax assets (note 6(19))	843,711	1	889,157	1	Total liabilities		<u>22,174,371</u>	<u>34</u>	<u>22,358,014</u>	<u>37</u>
1900	Other non-current assets (note 9(2))	<u>1,759,180</u>	<u>3</u>	<u>659,914</u>	<u>1</u>	Equity (notes 6(20) and (21)):					
		<u>15,142,853</u>	<u>23</u>	<u>14,095,251</u>	<u>23</u>	3100	Common shares	2,047,690	3	1,986,745	3
						3200	Capital surplus	11,552,379	18	8,970,438	15
						3300	Retained earnings	30,808,166	47	28,952,665	48
						3400	Other equity interest	(362,774)	-	(216,810)	-
						3500	Treasury shares	<u>(1,257,308)</u>	<u>(2)</u>	<u>(2,061,216)</u>	<u>(3)</u>
						Total equity		<u>42,788,153</u>	<u>66</u>	<u>37,631,822</u>	<u>63</u>
Total assets		<u>\$ 64,962,524</u>	<u>100</u>	<u>59,989,836</u>	<u>100</u>	Total liabilities and equity		<u>\$ 64,962,524</u>	<u>100</u>	<u>59,989,836</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

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

		2023		2022	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(23) and 7)	\$ 48,221,630	100	60,256,142	100
5000	Operating costs (notes 6(7), (24) and 7)	<u>32,057,192</u>	<u>67</u>	<u>42,923,527</u>	<u>71</u>
	Gross profit from operations	16,164,438	33	17,332,615	29
5910	Unrealized profit on transactions with associates	(50,194)	-	17,277	-
5950	Realized gross profit	<u>16,114,244</u>	<u>33</u>	<u>17,349,892</u>	<u>29</u>
	Operating expenses (notes 6(24) and 7):				
6100	Marketing expenses	1,277,484	3	1,268,136	2
6200	General and administrative expenses	959,935	2	1,044,298	2
6300	Research and development expenses	10,305,558	21	8,130,501	14
6450	Expected credit loss (reversal gain) (note 6(5))	(50,601)	-	63,035	-
	Total operating expenses	<u>12,492,376</u>	<u>26</u>	<u>10,505,970</u>	<u>18</u>
	Net operating income	<u>3,621,868</u>	<u>7</u>	<u>6,843,922</u>	<u>11</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(25) and 7)	295,717	1	201,479	-
7020	Other gains and losses (notes 6(9) and (25))	258,980	1	509,327	1
7050	Finance costs (note 6(25))	(53,957)	-	(35,783)	-
7100	Interest income (note 6(25))	207,981	-	97,143	-
7060	Shares of profit (loss) of associates accounted for using the equity method (note 6(8))	(231,147)	-	(1,319,168)	(2)
		<u>477,574</u>	<u>2</u>	<u>(547,002)</u>	<u>(1)</u>
7900	Profit before tax	4,099,442	9	6,296,920	10
7950	Income tax expenses (note 6(19))	475,014	1	895,774	1
8200	Net profit for the year	<u>3,624,428</u>	<u>8</u>	<u>5,401,146</u>	<u>9</u>
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(972)	-	(8,356)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26))	(56,570)	-	(181,391)	-
8320	Shares of other comprehensive income of associates accounted for using the equity method	(4,775)	-	(214,605)	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(19))	194	-	1,671	-
	Total items that will not be reclassified subsequently to profit or loss	<u>(62,123)</u>	<u>-</u>	<u>(402,681)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(124,063)	(1)	177,651	-
8399	Income tax related to items that may be reclassified subsequently (note 6(19))	24,812	-	(6,817)	-
	Total items that may be reclassified subsequently to profit or loss	<u>(99,251)</u>	<u>(1)</u>	<u>170,834</u>	<u>-</u>
8300	Other comprehensive income	<u>(161,374)</u>	<u>(1)</u>	<u>(231,847)</u>	<u>-</u>
8500	Total comprehensive income	<u>\$ 3,463,054</u>	<u>7</u>	<u>5,169,299</u>	<u>9</u>
	Earnings per share (New Taiwan Dollars) (note 6(22)):				
9750	Basic earnings per share	<u>\$ 18.48</u>		<u>27.71</u>	
9850	Diluted earnings per share	<u>\$ 17.57</u>		<u>26.06</u>	

See accompanying notes to consolidated financial statements.

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

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	Share capital			Retained earnings				Exchange differences on translation of foreign financial statements	Total other equity interest		Treasury shares	Total equity	
	Common shares	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings		Total	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income			Total
Balance at January 1, 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 year	-	-	-	-	-	-	5,401,146	5,401,146	-	-	-	-	5,401,146
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	(6,685)	170,834	(395,996)	(225,162)	-	(231,847)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	5,394,461	5,394,461	170,834	(395,996)	(225,162)	-	5,169,299
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	-	-	817,193	-	(817,193)	-	-	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	-	(4,532,702)	(4,532,702)	-	-	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	-	(155,568)	155,568	-	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	1,012,124	-	-	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	(2,061,216)	(2,061,216)
Share-based payments	-	-	-	360,211	-	-	-	-	-	-	-	-	360,211
Exercise of employee stock options	-	16,005	16,005	359,667	-	-	-	-	-	-	-	-	375,672
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	94,932	-	(94,932)	(94,932)	-	-
Balance at December 31, 2022	<u>1,970,740</u>	<u>16,005</u>	<u>1,986,745</u>	<u>8,970,438</u>	<u>6,347,501</u>	<u>-</u>	<u>22,605,164</u>	<u>28,952,665</u>	<u>27,271</u>	<u>(244,081)</u>	<u>(216,810)</u>	<u>(2,061,216)</u>	<u>37,631,822</u>
Net profit for the year	-	-	-	-	-	-	3,624,428	3,624,428	-	-	-	-	3,624,428
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(778)	(778)	(99,251)	(61,345)	(160,596)	-	(161,374)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	3,623,650	3,623,650	(99,251)	(61,345)	(160,596)	-	3,463,054
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	-	-	216,340	-	(216,340)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	222,728	(222,728)	-	-	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	-	(1,753,517)	(1,753,517)	-	-	-	-	(1,753,517)
Changes in equity of associates accounted for using the equity method	-	-	-	746,357	-	-	-	-	-	-	-	-	746,357
The transfer of treasury share to employees	-	-	-	274,982	-	-	-	-	-	-	-	803,908	1,078,890
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(14,632)	(14,632)	-	14,632	14,632	-	-
Share-based payments	-	-	-	241,871	-	-	-	-	-	-	-	-	241,871
Exercise of employee stock options	73,950	(13,005)	60,945	1,318,731	-	-	-	-	-	-	-	-	1,379,676
Balance at December 31, 2023	<u>\$ 2,044,690</u>	<u>3,000</u>	<u>2,047,690</u>	<u>11,552,379</u>	<u>6,563,841</u>	<u>222,728</u>	<u>24,021,597</u>	<u>30,808,166</u>	<u>(71,980)</u>	<u>(290,794)</u>	<u>(362,774)</u>	<u>(1,257,308)</u>	<u>42,788,153</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	2023	2022
Cash flows from operating activities:		
Profit before income tax	\$ <u>4,099,442</u>	<u>6,296,920</u>
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	685,682	650,774
Amortization expense	519,158	395,794
Expected credit loss (reversal gain)	(50,601)	63,035
Net loss (gain) on financial assets at fair value through profit or loss	(429,756)	276,636
Finance costs	53,957	35,783
Loss (profit) on disposal of property, plant and equipment	184	(136)
Interest income	(207,981)	(97,143)
Dividend income	(86,966)	(90,937)
Share-based payments	518,918	360,211
Shares of loss of associates accounted for using the equity method	231,147	1,319,168
Gain on disposal of investments accounted for using the equity method	-	(30,426)
Unrealized (realized) profit on transactions with associates	50,194	(17,277)
Unrealized foreign exchange loss (gain)	141,958	(249,124)
Inventory obsolescence loss (reversal gain)	(379,317)	1,711,889
Reversal of refund liabilities	(191,265)	(111,852)
Profit from lease modification	(30)	(191)
Gain recognized in bargain purchase transaction	-	(16,289)
Total adjustments to reconcile profit	<u>855,282</u>	<u>4,199,915</u>
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	(2,652,148)	1,786,146
Other receivables	(84,828)	332,124
Inventories	(3,640,713)	(2,497,889)
Prepayments	(45,765)	(44,304)
Other current assets	(172)	1,759
Contract liabilities	(13,358)	(56,721)
Accounts payable (including related parties)	456,891	(3,197,533)
Other payables	(291,580)	(1,041,547)
Other current liabilities	59,197	(121,388)
Net defined benefit liabilities	2,452	1,545
Total changes in operating assets and liabilities	<u>(6,210,024)</u>	<u>(4,837,808)</u>
Cash inflow (outflow) generated from operations	(1,255,300)	5,659,027
Interest paid	(18,271)	(6,980)
Income taxes paid	(422,646)	(2,060,606)
Net cash flows from (used in) operating activities	<u>(1,696,217)</u>	<u>3,591,441</u>

(Continued)

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	2023	2022
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(91,330)	(95,113)
Proceeds from disposal of financial assets at fair value through other comprehensive income	9,000	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	16,150
Acquisition of financial assets at amortized cost	(69)	(40)
Acquisition of financial assets at fair value through profit or loss	(500,938)	(4,265)
Proceeds from disposal of financial assets at fair value through profit or loss	801,049	377,473
Proceeds from capital reduction of financial assets at fair value through profit or loss	9,000	7,245
Net cash flow from acquisition of subsidiaries	-	(24,547)
Acquisition of property, plant and equipment	(390,749)	(1,528,412)
Proceeds from disposal of property, plant and equipment	300	5,040
Increase in refundable deposits	(1,117,665)	(14,550)
Acquisition of intangible assets	(377,763)	(451,643)
Decrease in prepayments for land and equipment	-	1,177
Interest received	207,864	96,089
Dividends received	86,966	90,937
Net cash flows used in investing activities	(1,364,335)	(1,524,459)
Cash flows from financing activities:		
Increase in short-term loans	2,561,756	1,967,656
Decrease in short-term loans	(384,462)	(2,410,651)
Repayments of long-term borrowings	(48,949)	(30,704)
Increase (decrease) in guarantee deposits received	(1,150,954)	1,659,591
Payment of lease liabilities	(63,905)	(47,989)
Cash dividends paid	(2,836,702)	(4,532,738)
Exercise of employee stock options	1,379,676	375,672
Payments to acquire treasury shares	-	(2,061,216)
Treasury shares sold to employees	801,843	-
Net cash flows from (used in) financing activities	258,303	(5,080,379)
Effect of exchange rate changes on cash and cash equivalents	(11,153)	477,984
Net decrease in cash and cash equivalents	(2,813,402)	(2,535,413)
Cash and cash equivalents at beginning of period	17,033,769	19,569,182
Cash and cash equivalents at end of period	\$ 14,220,367	17,033,769

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 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 March 8, 2024.

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”

The Group has initially adopted the following new amendment, which do not have a significant impact on its consolidated financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform—Pillar Two Model Rules”

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”

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

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

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS 21 “Lack of Exchangeability”

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 material accounting policies

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

- (1) Statement of compliance

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

- (2) Basis of preparation

A. Basis of measurement

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

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

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

B. Functional and presentation currency

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

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

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

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

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

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

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

B. List of subsidiaries in the consolidated financial statements

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

Name investor	Name of subsidiary	Principal activity	Shareholding (%)		Note
			December 31, 2023	December 31, 2022	
The Company	Lian Xu Dong Investment Corporation	Investment	100	100	
The Company	Phison Electronics Japan Corp.	Sales and service office	100	100	
The Company	Emtops Electronics Corp.	Investment	100	100	
The Company	Phisontech Electronics Taiwan Corp.	Investment and trade	100	100	
The Company	Global Flash Limited	Investment and trade	100	100	
The Company	Power Flash (Samoa) Limited	Investment and trade	100	100	
The Company	Everspeed Technology Limited	Trade of electronic components	-	-	Note 1
The Company	Regis Investment (Samoa) Limited	Investment	100	100	
The Company	Nextorage Corporation	R&D, design, manufacture and sale of flash memory application products	100	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	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100	100	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100	100	
Power Flash (Samoa) Limited	Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	100	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	

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

<u>Name investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding (%)</u>		<u>Note</u>
			<u>December 31, 2023</u>	<u>December 31, 2022</u>	
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	100	100	
Emtops Electronics Corp.	Phison Technology Inc.	Sale of electronic products and business service office	100	100	
Phisontech Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100	100	

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

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

Note 3: For operation needs, the Company set up Phison Technology India Private Limited in India in December 2022, wherein the Company and Emtops Electronics Corp. held 2,299,990 shares and 10 shares, respectively, in it.

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

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

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

(4) Foreign currencies

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

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

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

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

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

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

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

An entity shall classify a liability as current when:

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

(6) Cash and cash equivalents

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

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

(7) Financial instruments

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

A. Financial assets

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

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

(a) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

(d) Impairment of financial assets

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

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For other financial assets, when the credit risk has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events over the expected life of the financial instruments.

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

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

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

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

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

(e) Derecognition of financial assets

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

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

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

(b) Equity instruments

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

(c) Treasury shares

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

(d) Financial liabilities

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

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

(e) Derecognition of financial liabilities

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

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

(f) Offsetting of financial assets and liabilities

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

(8) Inventories

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

(9) Investment in associates

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

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

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

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

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

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

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

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

(10) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Subsequent cost

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

C. Depreciation

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

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

- (a) Land improvements: 7 years
- (b) Building—building cost: 20 to 50 years
- (c) Building—electrical engineering: 20 years

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

- (d) Testing equipment: 3 to 7 years
- (e) Office equipment: 3 to 7 years
- (f) Mechanical equipment: 3 to 6 years
- (g) Other equipment: 1 to 15 years

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

(11) Leases

A. Identifying a lease

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

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

B. As a lessee

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

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

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

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

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

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

C. As a lessor

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

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

(12) Intangible assets

A. Intangible assets acquired separately

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

B. Intangible assets acquired in a business combination

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

C. Derecognition of intangible assets

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

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(13) Impairment of non-financial assets

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

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

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

(14) Revenue recognition

A. Revenue from contracts with customers

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

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

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

(c) Financing components

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

(15) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

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

C. Short-term employee benefits

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

(16) Share-based payment

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

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

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

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

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(17) Income taxes

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

A. Current taxes

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

The Group has determined that the global minimum top-up tax – which it is required to pay under Pillar Two legislation – is an income tax in the scope of IAS 12. The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

B. Deferred taxes

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

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

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

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

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

(18) Business combination

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

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

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

(19) Earnings per share

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

5. Critical Accounting Judgments and Key Sources of Estimations and Assumptions Uncertainty

In preparing these consolidated financial statements in conformity with IFRSs endorsed by the FSC, the management has made judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

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

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

The Group holds 35.83% of the outstanding shares of HOSIN Global Electronics Co., Ltd. (the investee). However, due to the multiple voting right system, the Group only obtained 25.47% of the voting rights. The remaining 54.55% of voting rights are concentrated within specific shareholders. Thus, the Group still cannot obtain more than half of the total number of the investee's directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Group has significant influence but without control on the investee.

(2) Inventories

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

6. Description of significant accounts

(1) Cash and cash equivalent

	December 31, 2023	December 31, 2022
Cash	\$ 165	145
Demand deposits and check deposits	11,264,285	11,507,034
Cash equivalents—time deposits	<u>2,955,917</u>	<u>5,526,590</u>
	<u>\$ 14,220,367</u>	<u>17,033,769</u>

According to the IFRSs Q&A updated by the Financial Supervisory Commission, R.O.C. Securities and Futures Bureau on January 5, 2024, the Group's special account of repatriated offshore funds, with a deposit balance of \$528,235 thousand, was transferred from financial assets at amortized cost – current to cash and cash equivalents, resulting in the unrealized foreign exchange loss (gains) under operating activities and the disposal of financial assets at amortized cost under investing activities to increase and decrease by \$19,725 thousand and \$547,960 thousand, respectively, as of January 1, 2022.

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.

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

	December 31, 2023	December 31, 2022
Financial assets at fair value through profit or loss — current:		
Beneficiary certificates — open-end funds	\$ 112,094	110,769
Domestic listed stock (note)	868,313	674,253
Derivative instruments — convertible bonds (note 6(17))	350	-
	\$ 980,757	785,022
Financial assets at fair value through profit or loss — non-current:		
Domestic private equity funds	\$ 27,201	34,444
Domestic unlisted stocks	132,719	174,012
Foreign unlisted stocks	82,337	108,891
	\$ 242,257	317,347

Note: In August 2022, Apacer Technology Inc. issued additional ordinary shares in exchange for the common stock of UD INFO Corp., resulting in the Company to acquire 2,505 thousand shares of newly issued common stock of Apacer Technology Inc. in exchange for the previously held 1,252 thousand shares of UD INFO Corp., with the base date set on August 1, 2022. Due to the aforementioned transaction, the cumulative gain in equity recognized during the period in which the Company held UD INFO Corp.'s shares amounting to \$94,932 thousand had been reclassified from FVOCI to retained earnings.

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost — current

	December 31, 2023	December 31, 2022
Pledged time deposits	\$ 40,568	40,499

A. 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.

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

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

	December 31, 2023	December 31, 2022
Domestic unlisted stocks (Note)	\$ 271,751	235,752
Foreign unlisted stocks	185,706	195,945
	\$ 457,457	431,697

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)

	December 31, 2023	December 31, 2022
Accounts receivable	\$ 7,870,481	6,126,356
Accounts receivable – related parties	1,811,450	1,221,183
	9,681,931	7,347,539
Less: loss allowance	(60,140)	(110,744)
Accounts receivable, net	\$ 9,621,791	7,236,795

As of January 1, 2022, the ending balance of accounts receivable, net (including related parties) was \$8,729,261 thousand.

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

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

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

	December 31, 2023		
	Gross carrying amount	Weighted- average loss rate (%)	Loss allowance
Current	\$ 9,215,287	0.17	15,371
1~60 days past due	456,588	7.60	34,713
More than 151 days past due	10,056	100.00	10,056
	\$ 9,681,931		60,140

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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

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

	For the years ended December 31,	
	2023	2022
Balance, beginning of the period	\$ 110,744	47,709
Impairment losses recognized (reversed)	(50,601)	63,035
Effect of movements in exchange rates	(3)	-
Balance, end of the period	\$ 60,140	110,744

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

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

(Unit: USD in Thousands)

	December 31, 2023			
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	\$ 312	253	0.22~0.65	Note 1~4

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

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

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

Note 3: As of December 31, 2023 and 2022, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$7,763 thousand and \$52,651 thousand, respectively, were recognized under other receivables.

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

(6) Other receivables

	December 31, 2023	December 31, 2022
Tax refund receivable	\$ 366,564	193,916
Factored accounts receivable	7,763	52,651
Others	44,448	87,335
Less: loss allowance	-	-
	\$ 418,775	333,902

(7) Inventories

	December 31, 2023	December 31, 2022
Raw materials	\$ 15,908,649	14,763,313
Work in process	5,144,759	2,427,948
Semi-finished goods	3,085,447	2,972,532
Finished goods	271,550	226,582
	\$ 24,410,405	20,390,375

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2023 and 2022 were \$32,057,192 thousand and \$42,923,527 thousand, respectively.

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The costs of goods sold for the years ended December 31, 2023 and 2022 included inventory obsolescence loss (reversal gain) of \$(379,317) thousand and \$1,711,889 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Amount</u>	<u>Ownership interest (%)</u>	<u>Amount</u>	<u>Ownership interest (%)</u>
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,568,743	35.83	3,252,782	39.04
EpoStar Electronics (BVI) Corporation	201,413	30.51	206,796	30.51
Hefei Xinpeng Technology Co., Ltd.	118,508	24.23	81,685	24.23
ProGrade Digital Inc.	148,009	28.71	126,981	28.71
Microtops Design Corporation	<u>26,198</u>	49.00	<u>25,719</u>	49.00
	<u>\$ 4,062,871</u>		<u>3,693,963</u>	

The Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. in 2023 and 2022, therefore, the changes in equity of associate recognized in the capital surplus by the Group amounted to \$658,347 thousand and \$1,015,832 thousand for the years ended December 31, 2023 and 2022.

In 2023 and 2022, the change in percentage of ownership interests in investees resulted in the changes in equity of associate, including recognized in the capital surplus amounting to \$88,010 thousand and reversal of capital surplus amounting to \$3,708 thousand, respectively.

A. 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 policies:

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current assets	\$ 22,004,218	14,454,355
Non-current assets	5,723,941	5,566,387
Current liabilities	(16,289,337)	(9,858,617)
Non-current liabilities	<u>(589,175)</u>	<u>(1,117,050)</u>
Net assets	<u>\$ 10,849,647</u>	<u>9,045,075</u>

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	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Operating revenue	\$ <u>38,631,969</u>	<u>24,469,891</u>
Net profit (loss)	\$ 909,470	(3,124,640)
Other comprehensive income (loss)	(79,038)	(491,882)
Total comprehensive income (loss)	\$ <u>830,432</u>	<u>(3,616,522)</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2023</u>	<u>2022</u>
Summarized information of the carrying amount of significant associates	\$ <u>3,770,156</u>	<u>3,459,578</u>
	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Attributable to the Group:		
Net profit (loss)	\$ (198,018)	(1,275,741)
Other comprehensive income (loss)	(91,904)	(187,462)
Total comprehensive income (loss)	\$ <u>(289,922)</u>	<u>(1,463,203)</u>

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

	<u>December 31,</u>	<u>December 31,</u>
	<u>2023</u>	<u>2022</u>
Summarized information of the carrying amount of associates that were not individually material	\$ <u>292,715</u>	<u>234,385</u>
	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Attributable to the Group:		
Net loss	\$ (33,129)	(43,427)
Other comprehensive income (loss)	(322)	7,671
Total comprehensive income (loss)	\$ <u>(33,451)</u>	<u>(35,756)</u>

C. Pledged

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

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(9) Business Combinations

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

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

Current assets:

Cash and cash equivalents	\$ 113,936
Accounts receivable, net	452,438
Other receivables	41,050
Inventories	107,841
Other current assets	801

Non-current assets:

Property, plant and equipment	36,137
Intangible assets	2,401
Other non-current assets	68,313

Current liabilities:

Accounts payable	(368,896)
Other payables	(148,709)
Other current liabilities	(1,837)
	<u><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 December 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	-	94,071	286,162	99,637	12,532	492,402
Disposal for the period	-	-	(278,693)	(35,579)	-	(314,272)
Reclassification	-	56,265	2,157	-	(58,819)	(397)
Effect of movements in exchange rates	(20)	(765)	(1,277)	(2,198)	(13)	(4,273)
Balance at December 31, 2023	<u>\$ 2,149,265</u>	<u>5,218,918</u>	<u>1,567,986</u>	<u>459,335</u>	<u>191</u>	<u>9,395,695</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	386,279	273,822	463,689	138,900	253,536	1,516,226
Acquisition through business combination	189	10,841	1,519	23,376	212	36,137
Disposal for the period	-	-	(297,506)	(53,752)	-	(351,258)
Reclassification	-	2,158,507	17,374	12,632	(2,189,389)	(876)
Effect of movements in exchange rates	(3)	(340)	2,997	1,601	(7)	4,248
Balance at December 31, 2022	<u>\$ 2,149,285</u>	<u>5,069,347</u>	<u>1,559,637</u>	<u>397,475</u>	<u>46,491</u>	<u>9,222,235</u>
Depreciation:						
Balance at January 1, 2023	\$ -	723,512	730,222	170,740	-	1,624,474
Depreciation for the period	-	154,412	389,864	94,684	-	638,960
Disposal for the period	-	-	(278,209)	(35,579)	-	(313,788)
Effect of movements in exchange rates	-	(59)	(741)	(880)	-	(1,680)
Balance at December 31, 2023	<u>\$ -</u>	<u>877,865</u>	<u>841,136</u>	<u>228,965</u>	<u>-</u>	<u>1,947,966</u>
Balance at January 1, 2022	\$ -	596,723	634,894	135,579	-	1,367,196
Depreciation for the period	-	126,775	388,773	86,112	-	601,660
Disposal for the period	-	-	(294,117)	(52,237)	-	(346,354)
Effect of movements in exchange rates	-	14	672	1,286	-	1,972
Balance at December 31, 2022	<u>\$ -</u>	<u>723,512</u>	<u>730,222</u>	<u>170,740</u>	<u>-</u>	<u>1,624,474</u>
Carrying amounts:						
Balance at December 31, 2023	<u>\$ 2,149,265</u>	<u>4,341,053</u>	<u>726,850</u>	<u>230,370</u>	<u>191</u>	<u>7,447,729</u>
Balance at December 31, 2022	<u>\$ 2,149,285</u>	<u>4,345,835</u>	<u>829,415</u>	<u>226,735</u>	<u>46,491</u>	<u>7,597,761</u>
Balance at 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>

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>
Cost:				
Balance at January 1, 2023	\$ 180,008	1,296	-	181,304
Additions for the period	15,311	473	-	15,784
Deduction for the period and others	(18,883)	(768)	-	(19,651)
Effect of movements in exchange rate	(1,909)	-	-	(1,909)
Balance at December 31, 2023	<u>\$ 174,527</u>	<u>1,001</u>	<u>-</u>	<u>175,528</u>
Balance at January 1, 2022	\$ 65,480	992	6,574	73,046
Additions for the period	153,465	528	-	153,993
Deduction for the period and others	(40,147)	(224)	(6,574)	(46,945)
Effect of movements in exchange rate	1,210	-	-	1,210
Balance at December 31, 2022	<u>\$ 180,008</u>	<u>1,296</u>	<u>-</u>	<u>181,304</u>
Depreciation:				
Balance at January 1, 2023	\$ 50,571	657	-	51,228
Depreciation for the period	46,293	429	-	46,722
Deduction for the period and others	(16,189)	(768)	-	(16,957)
Effect of movements in exchange rate	(810)	-	-	(810)
Balance at December 31, 2023	<u>\$ 79,865</u>	<u>318</u>	<u>-</u>	<u>80,183</u>
Balance at January 1, 2022	\$ 27,545	473	5,752	33,770
Depreciation for the period	47,884	408	822	49,114
Deduction for the period and others	(25,454)	(224)	(6,574)	(32,252)
Effect of movements in exchange rate	596	-	-	596
Balance at December 31, 2022	<u>\$ 50,571</u>	<u>657</u>	<u>-</u>	<u>51,228</u>

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	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Others</u>	<u>Total</u>
Carrying amounts:				
Balance at December 31, 2023	\$ <u>94,662</u>	<u>683</u>	<u>-</u>	<u>95,345</u>
Balance at December 31, 2022	\$ <u>129,437</u>	<u>639</u>	<u>-</u>	<u>130,076</u>
Balance at January 1, 2022	\$ <u>37,935</u>	<u>519</u>	<u>822</u>	<u>39,276</u>

B. Lease liabilities

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current	\$ <u>64,400</u>	<u>46,250</u>
Non-current	\$ <u>83,731</u>	<u>85,526</u>

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

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

	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Interest expenses relating to lease liabilities	\$ <u>2,094</u>	<u>1,214</u>
Expenses relating to short-term lease	\$ <u>11,613</u>	<u>9,566</u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	\$ <u>1,395</u>	<u>1,100</u>

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

	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Total cash outflow for leases	\$ <u>79,007</u>	<u>59,869</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.

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(12) Intangible assets

	<u>Computer software</u>	<u>Technology License Fees</u>	<u>Total</u>
Cost:			
Balance at January 1, 2023	\$ 1,616,037	458,308	2,074,345
Additions for the period	352,305	25,458	377,763
Disposal for the period	(372)	-	(372)
Reclassification	572	-	572
Effects of movements in exchange rates	(335)	-	(335)
Balance at December 31, 2023	<u>\$ 1,968,207</u>	<u>483,766</u>	<u>2,451,973</u>
Balance at January 1, 2022	\$ 1,214,130	403,695	1,617,825
Additions for the period	397,030	54,613	451,643
Acquisition through business combination	2,401	-	2,401
Reclassification	2,438	-	2,438
Effects of movements in exchange rates	38	-	38
Balance at December 31, 2022	<u>\$ 1,616,037</u>	<u>458,308</u>	<u>2,074,345</u>
Amortization:			
Balance at January 1, 2023	\$ 1,297,501	401,508	1,699,009
Amortization for the period	452,948	66,210	519,158
Disposal for the period	(372)	-	(372)
Effects of movements in exchange rates	(125)	-	(125)
Balance at December 31, 2023	<u>\$ 1,749,952</u>	<u>467,718</u>	<u>2,217,670</u>
Balance at January 1, 2022	\$ 957,934	345,220	1,303,154
Amortization for the period	339,506	56,288	395,794
Effects of movements in exchange rates	61	-	61
Balance at December 31, 2022	<u>\$ 1,297,501</u>	<u>401,508</u>	<u>1,699,009</u>
Carrying amounts:			
Balance at December 31, 2023	<u>\$ 218,255</u>	<u>16,048</u>	<u>234,303</u>
Balance at December 31, 2022	<u>\$ 318,536</u>	<u>56,800</u>	<u>375,336</u>
Balance at January 1, 2022	<u>\$ 256,196</u>	<u>58,475</u>	<u>314,671</u>

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

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(13) Short-term borrowings

	December 31, 2023	December 31, 2022
Unsecured bank loans	\$ 2,106,363	-
Range of interest rates at the end of period (%)	5.92~6.14	-

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

(14) Other payables

	December 31, 2023	December 31, 2022
Salaries and bonus payable	\$ 5,412,949	6,066,671
Dividend payable (note 6(20))	887,774	1,970,963
Others	1,262,442	901,494
	\$ 7,563,165	8,939,128

(15) Other current liabilities

	December 31, 2023	December 31, 2022
Guarantee deposits received (note 9(3))	\$ 767,625	921,300
Refund liabilities	366,589	620,776
Payables for purchases of equipment	76,635	88,419
Receipts under custody	109,969	87,669
Other payables-related parties	101,199	550
Others	6,863	7,693
	\$ 1,428,880	1,726,407

(16) Long-term borrowings

	December 31, 2023		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	2.15	January, 2028	\$ 115,983
Less: current portion			(27,470)
			\$ 88,513

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

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

(17) Bonds payable

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

The details of unsecured convertible bonds were as follows:

	December 31, 2023	December 31, 2022
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	(28,607)	(57,969)
Less: current portion	(3,471,393)	-
Bonds payable	\$ -	3,442,031
Embedded derivative instruments—call and conversion options, included in financial assets at fair value through profit or loss—current	\$ 350	-
Embedded derivative instruments—Equity component—conversion options, included in capital surplus—stock options	\$ 102,369	102,369
	For the years ended December 31,	For the years ended December 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	\$ 350	(4,900)
Interest expense	\$ 29,362	29,176

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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. The conversion price adjusted was as follows:

Ex-dividend date	Conversion price before adjustment	Conversion price after adjustment
December 27, 2021	570.0	556.3
July 4, 2022	556.3	537.3
December 19, 2022	537.3	520.6
July 10, 2023	520.6	515.1
December 29, 2023	515.1	510.4

(Amount in Dollars)

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

(18) Employee benefits

A. Defined benefit plans

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

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

	December 31, 2023	December 31, 2022
Present value of defined benefit obligations	\$ 170,925	164,193
Fair value of plan assets	(52,703)	(49,395)
Net defined benefit liabilities	\$ 118,222	114,798

(a) Composition of plan assets

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

Bank of Taiwan labor pension reserve account balance of the Group's domestic subsidiaries amounted to \$52,703 thousand as of December 31, 2023. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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

	For the years ended December 31,	
	2023	2022
Defined benefit obligation at January 1	\$ 164,193	149,156
Current service cost	3,327	3,000
Current interest cost	2,299	1,193
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in experience adjustment	(1,630)	28,422
— Actuarial losses (gains) arising from changes in financial assumptions	2,736	(16,862)
Benefits paid	-	(716)
Defined benefit obligation at December 31	\$ 170,925	164,193

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(c) Movements of defined benefit plan assets

	For the years ended December 31,	
	2023	2022
Fair value of plan assets at January 1	\$ 49,395	44,259
Interest income	692	354
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	134	3,204
Contribution to the plan	2,482	2,294
Benefits paid	-	(716)
Fair value of plan assets at December 31	<u>\$ 52,703</u>	<u>49,395</u>

(d) Expenses recognized in profit or loss

	For the years ended December 31,	
	2023	2022
Current service cost	\$ 3,327	3,000
Net interest on the net defined benefit liabilities (assets)	1,607	839
	<u>\$ 4,934</u>	<u>3,839</u>

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

	For the years ended December 31,	
	2023	2022
Accumulated amount at January 1	\$ (55,198)	(48,513)
Recognized during the period	(778)	(6,685)
Accumulated amount at December 31	<u>\$ (55,976)</u>	<u>(55,198)</u>

(f) Actuarial assumptions

	December 31,	December 31,
	2023	2022
Discount rate (%)	1.30	1.40
Future salary increase rate (%)	3.00	3.00

The Group is expecting a contribution of \$2,512 thousand to its defined benefit plans in the following year after the reporting date.

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

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(g) Sensitivity analysis

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

	Impact on present value of defined benefit obligations	
	Increase	Decrease
	0.25%	0.25%
December 31, 2023		
Discount rate	\$ (6,740)	7,080
Future salary increase rate	6,512	(6,248)
December 31, 2022		
Discount rate	\$ (6,465)	6,786
Future salary increase rate	6,248	(5,998)

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

There were no changes in the method and assumptions used in calculating the sensitivity analysis for the years of 2023 and 2022.

B. Defined contribution plans

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

The pension costs of the Group's domestic subsidiaries under the defined contribution method were \$271,833 thousand and \$223,319 thousand for the years ended December 31, 2023 and 2022, respectively. Payment was made to the Bureau of Labor Insurance.

The pension costs of the Group's overseas subsidiaries under the defined contribution method were \$8,397 thousand and \$5,983 thousand for the years ended December 31, 2023 and 2022, respectively.

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(19) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	For the years ended December 31,	
	2023	2022
Current tax expense		
Current period	\$ 484,018	1,291,411
Tax refund of repatriated offshore funds	(91,590)	-
Prior-year adjustments	(58,376)	(26,229)
Income tax expense of unappropriated earnings	<u>52,136</u>	<u>103,209</u>
	<u>386,188</u>	<u>1,369,391</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>88,826</u>	<u>(473,617)</u>
	<u>\$ 475,014</u>	<u>895,774</u>

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

	2023	2022
Profit before income tax	<u>\$ 4,099,442</u>	<u>6,296,920</u>
Income tax using the Company's domestic tax rate	\$ 819,888	1,259,384
Effect of tax rates in foreign jurisdiction	43,874	44,634
Permanent difference	(106,266)	33,504
Investment tax incentives	(198,696)	(570,717)
Effect of unrecognized deferred tax liabilities	26,906	50,798
Income tax expense of unappropriated earnings	52,136	103,209
Tax refund of repatriated offshore funds	(91,590)	-
Prior-year adjustments	(58,376)	(26,229)
Others	<u>(12,862)</u>	<u>1,191</u>
Income tax expense	<u>\$ 475,014</u>	<u>895,774</u>

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B. Income tax recognized in other comprehensive income

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

	For the years ended December 31,	
	2023	2022
Remeasurements from defined benefit plans	\$ (194)	(1,671)
Exchange differences on translation of foreign financial statements	(24,812)	6,817
	\$ (25,006)	5,146

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

The Group is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2023 and 2022. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details were as follows:

	December 31, 2023	December 31, 2022
Unrecognized deferred tax liabilities	\$ 333,333	360,239

(b) Recognized deferred tax assets and liabilities

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

	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	December 31, 2023
Deferred tax assets						
Inventory write-downs	\$ 468,405	(76,108)	-	-	-	392,297
Unrealized exchange losses	136,062	25,827	-	-	-	161,889
Refund liabilities	124,155	(50,837)	-	-	-	73,318
Loss on foreign investment accounted for using the equity method	49,825	23,298	-	-	-	73,123
Impairment loss on financial assets	23,116	-	-	-	-	23,116
Net defined benefit liabilities	22,959	490	194	-	-	23,643
Exchange differences on translating foreign operations	-	-	17,995	-	-	17,995
Others	64,635	15,852	-	(2,157)	-	78,330
	\$ 889,157	(61,478)	18,189	(2,157)	-	843,711

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	<u>January 1, 2023</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>Effect of movements in exchange rates</u>	<u>Acquisitions through business combinations</u>	<u>December 31, 2023</u>
Deferred tax liabilities:						
Gain on foreign investment accounted for using the equity method	\$ 49,364	27,321	-	-	-	76,685
Exchange differences on translating foreign operations	6,817	-	(6,817)	-	-	-
Others	25	27	-	(1)	-	51
	<u>\$ 56,206</u>	<u>27,348</u>	<u>(6,817)</u>	<u>(1)</u>	<u>-</u>	<u>76,736</u>
	<u>January 1, 2022</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>Effect of movements in exchange rates</u>	<u>Acquisitions through business combinations</u>	<u>December 31, 2022</u>
Deferred tax assets:						
Inventory write-downs	\$ 134,074	334,331	-	-	-	468,405
Unrealized exchange losses	133,659	2,403	-	-	-	136,062
Refund liabilities	165,792	(41,637)	-	-	-	124,155
Loss on foreign investment accounted for using the equity method	-	49,825	-	-	-	49,825
Impairment loss on financial assets	25,258	(2,142)	-	-	-	23,116
Net defined benefit liabilities	20,980	308	1,671	-	-	22,959
Others	15,430	(3,259)	-	(1,851)	54,315	64,635
	<u>\$ 495,193</u>	<u>339,829</u>	<u>1,671</u>	<u>(1,851)</u>	<u>54,315</u>	<u>889,157</u>
Deferred tax liabilities:						
Gain on foreign investment accounted for using the equity method	\$ 183,177	(133,813)	-	-	-	49,364
Exchange differences on translating foreign operations	-	-	6,817	-	-	6,817
Others	-	25	-	-	-	25
	<u>\$ 183,177</u>	<u>(133,788)</u>	<u>6,817</u>	<u>-</u>	<u>-</u>	<u>56,206</u>

D. Examination and approval

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

(20) Equity

A. Common shares

As of December 31, 2023 and 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 \$2,044,690 thousand and \$1,970,740 thousand, respectively, with par value of NTD10 per share.

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As of December 31, 2023, the Company issued 7,395 thousand new common shares, with a par value of \$10 per share, as employee stock options. As of December 31, 2023 and 2022, the registration procedures for the amounts of \$3,000 thousand and \$16,005 thousand, respectively, recognized as advance receipts for share capital, has yet to be completed.

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

(Unit: Shares in Thousands)

	For the years ended December 31,	
	2023	2022
Balance, beginning of the period	191,815	197,074
Effect of repurchasing treasury shares	-	(6,860)
Employee share options exercised	6,094	1,601
Transfer of treasury shares	2,676	-
Balance, end of the period	<u><u>200,585</u></u>	<u><u>191,815</u></u>

B. Capital surplus

	December 31, 2023	December 31, 2022
Additional paid-in capital	\$ 8,416,171	6,597,101
Changes in equities of associates accounted for using the equity method	2,027,006	1,280,649
Difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
Changes in ownships interest in subsidiaries	1,944	1,944
Employee share options	580,922	839,390
Due to recognition of equity component of convertible bonds	102,369	102,369
Transaction of treasury stock	274,930	-
Expired employee stock options	279	227
	<u><u>\$ 11,552,379</u></u>	<u><u>8,970,438</u></u>

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

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C. Retained earnings and dividend policy

The Company's Articles of Incorporation (the "Articles") that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

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

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

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

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

The appropriation of 2023 earnings was as follows:

	Second Half of 2023	First Half of 2023
Resolution date of the Company's Board of Directors	March 8, 2024	August 4, 2023
Cash dividends to shareholders	\$ 1,773,262	887,555
Cash dividends per share (NTD)	8.84	4.42484464(Note)
Legal reserve	294,086	66,593
Special reserve	140,046	5,918

The amount of legal reserve and special reserve of 2023 will be submitted to the shareholders' meeting for approval on May 27, 2024.

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The appropriation of 2022 earnings was 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) (Note)	4.45090808	10.27746561
Approval date of the Company's shareholders' meeting	May 31, 2023	May 31, 2023
Legal reserve	\$ 149,747	399,192
Special reserve	216,810	-

Note: Due to the treasury shares and the exercise of employee stock options, the actual distribution of cash dividends per share was adjusted.

The appropriation of 2021 earnings was as follows:

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

The aforementioned appropriation of 2021 earnings for was consistent with the proposal made by the Board of Directors on March 4, 2022.

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.

The Company transferred 2,676 thousand treasury shares to its employees and subsidiary employees in 2023 and received the amount to \$801,843 thousand, resulting in the cost of the share-based remuneration of \$277,047 thousand to be recognized.

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E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	For the years ended December 31,	
	2023	2022
Balance at January 1	\$ 27,271	(143,563)
Foreign exchange differences (net of tax)	(99,251)	170,834
Balance at December 31	\$ (71,980)	27,271

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

	For the years ended December 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)	(61,345)	(395,996)
Disposal for the period	14,632	(94,932)
Balance at December 31	\$ (290,794)	(244,081)

(21) Share-based payment

The Company issued employee share options which each unit can be exercised to purchase one share of the Company. The duration of the plan is 3 to 4 years, and the plan was approved by the FSC. As of December 31, 2023, the information related to the employee share options was as follows:

Type	Authorization date	Issue date	Issued units (in thousands)	Grant Period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
2022 First employee share options (note)	July 27, 2022	September 7, 2022	6,000	service period between 2~3 years	293.50	278.80
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	225.30
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	225.30

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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 \$241,871 thousand and \$360,211 thousand for the years ended December 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.

Information related to employee share options was as follows:

A. 2022 First employee share options

	<u>For the years ended December 31,</u>			
	<u>2023</u>		<u>2022</u>	
<u>Employee share options</u>	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted-average exercise price (NTD)</u>	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted-average exercise price (NTD)</u>
Outstanding at January 1	5,969	\$ 284.40	-	\$ -
Granted during the period	-	-	6,000	293.50
Exercised during the period	-	-	-	-
Forfeited during the period	(140)	-	(31)	-
Outstanding at December 31	<u>5,829</u>	278.80	<u>5,969</u>	\$ 284.40
Exercisable at December 31	<u>-</u>		<u>-</u>	

As of December 31, 2023 and 2022, the weighted-average remaining contractual life for outstanding option were 2.69 and 3.69 years, respectively.

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B. 2021 First employee share options

	For the years ended December 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	(87)	-
Retracted during the period	(5,900)	-
Outstanding at December 31	-	-
Exercisable at December 31	-	-

C. 2020 First employee share options

	For the years ended December 31,			
	2023		2022	
Employee share options	Number of Options (In Thousands of Units)	Weighted- average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted- average exercise price (NTD)
Outstanding at January 1	4,642	\$ 227.70	5,782	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(4,632)	226.39	(1,127)	234.80
Forfeited during the period	(10)	-	(13)	-
Outstanding at December 31	-	-	4,642	227.70
Exercisable at December 31	-	-	1,760	-

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option was 0.75 years.

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D. 2019 Second employee share options

<u>Employee share options</u>	For the years ended December 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	(1,479)	226.36	(457)	234.77
Forfeited during the period	(1)	-	(3)	-
Outstanding at December 31	-	-	1,480	227.70
Exercisable at December 31	-		512	

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option, was 0.75 years.

(22) Earnings per share

A. Basic earnings per share

	For the years ended December 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 3,624,428	5,401,146
Weighted-average number of shares outstanding during the year (in thousands of shares)	196,176	194,935
Basic earnings per share (NTD)	\$ 18.48	27.71

B. Diluted earnings per share

	For the years ended December 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 3,624,428	5,401,146
Effect of dilutive potential ordinary shares		
Convertible bonds	23,210	19,420
Net profit attributable to ordinary shareholders of the Company	\$ 3,647,638	5,420,566
Weighted average number of shares outstanding during the year (in thousands of shares)	196,176	194,935
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	2,270	3,137
Employees' compensation	2,380	3,529
Effect of conversion of convertible bonds	6,758	6,409
	207,584	208,010
Diluted earnings per share (NTD)	\$ 17.57	26.06

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(23) Operating revenue

	For the years ended December 31,	
	2023	2022
Primary geographical markets:		
Asia	\$ 36,138,268	47,089,940
America	10,101,826	10,588,924
Europe	1,926,058	2,474,827
Australia	55,229	102,224
Others	249	227
	\$ 48,221,630	60,256,142
Major product categories:		
Flash memory module products	\$ 36,619,089	42,174,860
Controllers	8,359,636	13,907,161
Integrated Circuit	1,090,023	2,050,539
Others	2,152,882	2,123,582
	\$ 48,221,630	60,256,142

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

(24) Employees' compensation and remuneration of directors

The Company accrued its remunerations to employees and directors, at the rates of 8% to 19% and a maximum rate of 1.5%, of the net profit before income tax which yet the remunerations to employees and directors, respectively. The remunerations to employees and directors for the years ended December 31, 2023 and 2022, had been approved during the Company's board meetings held on March 8, 2024 and March 15, 2023, respectively, as follows:

	For the years ended December 31,			
	2023		2022	
	Cash	Share	Cash	Share
Employees' compensation	\$ 930,000	-	1,000,000	-
Remuneration of directors	23,000	-	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 years ended December 31,	
	2023	2022
Interest income from bank deposits	\$ 207,981	97,135
Others	-	8
	\$ 207,981	97,143

B. Other income

	For the years ended December 31,	
	2023	2022
Research project grant	\$ 104,912	31,797
Dividend income	86,966	90,937
Rent income	25,977	21,759
Gain on a bargain purchase (note 6(9))	-	16,289
Others	\$ 77,862	40,697
	\$ 295,717	201,479

C. Other gains and losses

	For the years ended December 31,	
	2023	2022
Gains on disposal of investments accounted for using the equity method (note 6(9))	\$ -	30,426
Net foreign exchange gains (losses)	(94,243)	755,681
Gains (Losses) on financial assets at fair value through profit or loss	429,756	(276,636)
Others	(76,533)	(144)
	\$ 258,980	509,327

D. Finance costs

	For the years ended December 31,	
	2023	2022
Interest on bank loans	\$ 22,370	5,271
Interest on lease liabilities	2,094	1,214
Interest on convertible bond	29,362	29,176
Others	131	122
	\$ 53,957	35,783

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(26) Financial instruments

A. Categories of financial instruments

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,223,014	1,102,369
Financial assets at amortized cost (Note 1)	26,050,348	25,249,286
Financial assets at FVTOCI	<u>457,457</u>	<u>431,697</u>
	<u>\$ 27,730,819</u>	<u>26,783,352</u>
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	<u>\$ 20,537,868</u>	<u>20,572,844</u>

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

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

B. Financial risk management objectives and policies

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

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

C. Market risk

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

(a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. To avoid the decrease in foreign currency assets and adverse fluctuations of future cash flows resulting from changes in foreign currency exchange rates, the Group used foreign currency borrowings to hedge risks of foreign currency exchange rates. The gain or loss caused by changes in foreign currency exchange rates will be offset by profit or loss from the hedge. The Group continues to evaluate future exchange rate movements, and the exposure to foreign currency risk of foreign currency net assets is still within the controllable range.

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(i) Exposure to foreign currency risk

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

	December 31, 2023			December 31, 2022		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	564,033	30.705	17,318,620	438,421	30.710	13,463,913
<u>Non-Monetary items</u>						
CNY	852,150	4.327	3,687,251	756,458	4.408	3,334,467
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	280,680	30.705	8,618,265	231,543	30.710	7,110,673

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk primarily arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable (including related parties), short-term borrowings, and accounts payable (including related parties), that are denominated in USD. A weakening (strengthening) of 5% of the NTD against the USD as of December 31, 2023 and 2022, would have increased or decreased the net profit before income tax for the years ended December 31, 2023 and 2022 by \$435,018 thousand and \$317,662 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 years ended December 31,	
2023	2022
\$ (94,243)	755,681

(b) Interest rate risk

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

If interest rates had been 0.25% basis point higher and all other variables were held constant, the Group's net profit before income tax for the years ended December 31, 2023 and 2022 would have increased by \$27,000 thousand and \$28,093 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents, short-term and long-term borrowings.

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(c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 10% higher or lower, net profit before income tax for the years ended December 31, 2023 and 2022 would have increased or decreased by \$122,301 thousand and \$110,237 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 10% higher or lower, the other comprehensive income before income tax for the years ended December 31, 2023 and 2022 would have increased or decreased by \$45,746 thousand and \$43,170 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 December 31, 2023 and 2022, 41% and 36%, respectively, of accounts receivable (including related parties) were from top five customers, so there was no significant concentration of credit risk. In addition, the Group periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

(b) Cash and cash equivalents

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

(c) Receivables and debt securities

Please refer to note 6(5) for details on the credit risk exposure of accounts receivable. Please refer to note 6(3) for financial assets at amortized cost including 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.

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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>
December 31, 2023					
Non-derivative financial liabilities					
Non-interest bearing liabilities	14,844,129	(14,844,129)	(14,838,383)	(4,336)	(1,410)
Lease liabilities (current and non-current)	148,131	(152,719)	(66,064)	(86,655)	-
Bonds payable (including current portion)	3,471,393	(3,500,000)	(3,500,000)	-	-
Floating interest rate liabilities	238,803	(245,302)	(153,744)	(91,558)	-
Fixed interest rate liabilities	<u>1,983,543</u>	<u>(2,004,093)</u>	<u>(2,004,093)</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,685,999</u>	<u>(20,746,243)</u>	<u>(20,562,284)</u>	<u>(182,549)</u>	<u>(1,410)</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>

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

F. Fair value of financial instruments

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy

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

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 868,313	-	-	868,313
Domestic unlisted stocks	-	-	132,719	132,719
Foreign unlisted stocks	-	-	82,337	82,337
Domestic private equity funds	-	-	27,201	27,201
Beneficiary certificates—open-end funds	112,094	-	-	112,094
Derivative instruments—convertible bonds	-	-	350	350
	<u>\$ 980,407</u>	<u>-</u>	<u>242,607</u>	<u>1,223,014</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	271,751	271,751
Foreign unlisted stocks	-	-	185,706	185,706
	<u>\$ -</u>	<u>-</u>	<u>457,457</u>	<u>457,457</u>
	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
	<u>\$ 785,022</u>	<u>-</u>	<u>317,347</u>	<u>1,102,369</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	235,752	235,752
Foreign unlisted stocks	-	-	195,945	195,945
	<u>\$ -</u>	<u>-</u>	<u>431,697</u>	<u>431,697</u>

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There were no transfers between Levels 1 and 2 for the years ended December 31, 2023 and 2022.

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	(7,243)	350	(59,785)	-	(66,678)
Recognized in other comprehensive income	-	-	-	(56,570)	(56,570)
Additions for the period	-	-	938	91,330	92,268
Disposal and proceeds from capital reduction	-	-	(9,000)	(9,000)	(18,000)
December 31, 2023	<u>\$ 27,201</u>	<u>350</u>	<u>215,056</u>	<u>457,457</u>	<u>700,064</u>
January 1, 2022	\$ 39,909	4,900	411,660	634,757	1,091,226
Recognized in profit or loss	(5,465)	(4,900)	(125,747)	-	(136,112)
Recognized in other comprehensive income	-	-	-	(181,391)	(181,391)
Additions for the period	-	-	4,265	95,113	99,378
Disposal and proceeds from capital reduction	-	-	(7,275)	(116,782)	(124,057)
December 31, 2022	<u>\$ 34,444</u>	<u>-</u>	<u>282,903</u>	<u>431,697</u>	<u>749,044</u>

(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 (December 31, 2023: 14.10%~30.00% and December 31, 2022: 7.69%~30.00%) 	<ul style="list-style-type: none"> · The higher the discount for lack of marketability, the lower the fair value
Financial assets at fair value through other comprehensive income—equity investments without an active market	Income approach	<ul style="list-style-type: none"> · Sustainable revenue growth rate (December 31, 2023: 1.92% and December 31, 2022: 1.6%) · Weighted-average cost of capital (December 31, 2023: 5.8%~12.25% and December 31, 2022: 6.25%~12.11%) · Discount for lack of marketability (December 31, 2023 and December 31, 2022: 15%) · Discount for non-controlling interest (December 31, 2023 and December 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 (December 31, 2023 and December 31, 2022: 10%) · Discount for non-controlling interest (December 31, 2023 and December 31, 2022: 10%) 	No applicable

The fair values of derivatives instruments—convertible bonds is estimated by the binary tree convertible bond evaluation model, and the significant unobservable input value used is the stock price volatility. The stock price volatility adopted on December 31, 2023 and 2022, was 32.20% and 38.59%, respectively.

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(27) Capital management

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

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

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

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

The Group's debt-to-equity ratios were respectively as follows:

	December 31, 2023	December 31, 2022
Total liabilities	\$ 22,174,371	22,358,014
Total equity	42,788,153	37,631,822
Debt-to-adjusted-capital ratio (%)	52	59

As of December 31, 2023, there is no change in the method of capital management of the Group.

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

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

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

	January 1, 2023	Cash flows	Foreign exchange movement and others	December 31, 2023
Short-term borrowings	\$ -	2,177,294	(70,931)	2,106,363
Bonds payable (including current portion)	3,442,031	-	29,362	3,471,393
Long-term borrowings (including current portion)	164,932	(48,949)	-	115,983
Lease liabilities (current and non-current)	131,776	(63,905)	80,260 (Note)	148,131
Guarantee deposits received (current and non-current)	1,847,780	(1,150,954)	76,545	773,371
Total liabilities from financing activities	<u>\$ 5,586,519</u>	<u>913,486</u>	<u>115,236</u>	<u>6,615,241</u>

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

Note: The Group has leased equipment and offices in Taipei for operation needs for the years ended December 31, 2023 and 2022, respectively, lease liabilities of the Group increased \$68,353 thousand and \$100,116 thousand.

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-subsiary
Hefei Core Storage Electronic Limited	Hosin Global SZ's subsidiary
Hefei Kaimeng Technology Co., Ltd.	Hosin Global SZ's sub-subsiary
Xiamen Hongxinchuang Electronics Co., Ltd.	Hosin Global SZ's subsidiary
Shanghai Hongxinyu Microelectronics Technology Co., Ltd.	Hosin Global SZ's subsidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
Hefei Datang Storage Technology Co., Ltd.	Hefei Xinpeng's subsidiary
ProGrade Digital, Inc.	Associate
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

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<u>Name of related party</u>	<u>Relationship with the Group</u>
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>	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Associates	\$ 3,247,097	5,761,656
Other related parties	2,234,809	3,215,711
	<u>\$ 5,481,906</u>	<u>8,977,367</u>

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

B. Purchase of goods and Processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Other related parties – Kioxia Taiwan Corporation	\$ 10,032,575	11,413,643
Associates	30,793	(3,655)
Other related parties	20	-
	<u>\$ 10,063,388</u>	<u>11,409,988</u>

(b) Processing costs

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Other related parties	\$ -	2,071,125

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

C. Receivable from related parties

<u>Related Party Category / Name</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Associates—Hosin Global Electronics Co., Ltd. (HK)	\$ 1,118,344	235,530
Associates	49,338	417,838
Other related parties	<u>643,767</u>	<u>567,815</u>
	1,811,449	1,221,183
Less: Loss allowance	<u>(3,685)</u>	<u>(22,110)</u>
	<u>\$ 1,807,764</u>	<u>1,199,073</u>

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

<u>Related Party Category / Name</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Other related parties—Kioxia Taiwan Corporation	<u>\$ 1,028,950</u>	<u>578,866</u>

E. Other transactions

<u>Account Name</u>	<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
		<u>2023</u>	<u>2022</u>
Operating costs	Associates	\$ 9,395	-
	Other related parties	<u>440</u>	<u>3,812</u>
		<u>\$ 9,835</u>	<u>3,812</u>
Operating Expenses	Associates	\$ 332,805	256,178
	Other related parties	<u>2,506</u>	<u>6,808</u>
		<u>\$ 335,311</u>	<u>262,986</u>
Non-operating incomes	Associates	\$ 924	1,228
	Other related parties (note)	<u>43,048</u>	<u>44,296</u>
		<u>\$ 43,972</u>	<u>45,524</u>

Note: The related parties distributed \$41,430 thousand and \$36,381 thousand cash dividend to the Group for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, all the aforementioned dividends had been fully received.

As of December 31, 2023 and 2022, the receivables arising from abovementioned transactions were all \$81 thousand (recognized as other receivables), and the payables arising from abovementioned transactions were \$101,199 thousand and \$399 thousand, respectively (recognized as other current liabilities).

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

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

(3) Key management personnel compensation

Key management personnel compensation comprised:

	For the years ended December 31,	
	2023	2022
Short-term employee benefits	\$ 242,785	442,005
Post-employment benefits	1,402	1,804
Share-based payments	<u>12,514</u>	<u>39,439</u>
	<u>\$ 256,701</u>	<u>483,248</u>

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

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

8. Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2023	December 31, 2022
Property, plant and equipment	As collateral for loans and finance facilities	\$ 505,118	517,906
Pledged time deposits (recognized as financial assets at amortized cost – current)	As collateral for the tariff of imported raw materials	<u>40,568</u>	<u>40,499</u>
		<u>\$ 545,686</u>	<u>558,405</u>

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

	December 31, 2023	December 31, 2022
Unused letters of credit	<u>\$ 660,000</u>	<u>1,160,000</u>

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

December 31, 2023	December 31, 2022
\$ 101,290	26,400

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

December 31, 2023	December 31, 2022
\$ 1,000	1,000

(2) Purchase commitment

The Group entered into a long-term purchase agreement of material with a supplier. The relative purchase quantity and price of wafers are specified in the agreement. According to the agreement, the Group has to pay partial guarantee deposit before the appointment date. As of December 31, 2023, the Group has paid US\$56,000 thousand of guarantee deposit (recognized as other non-current assets).

(3) Long-term supply agreement

The Group entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of US\$90,000 thousand as agreed. The Group was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. As of December 31, 2023, the guarantee deposits received were classified as current liabilities of \$767,625 thousand (recognized as other current liabilities) based on the expected repayment period.

10. Losses due to major disasters: None.

11. Subsequent events

- (1) In order to expand the Chinese market, the Company's Board of Directors resolved on January 18, 2024 to set up a Xiamen subsidiary, with an indirect investment of CNY60,000 thousand.
- (2) For the purpose of enhancing its working capital, the Company conducted a cash capital increase by issuing its second unsecured convertible bonds on January 23, 2024, with an issuance period of 5 years, and the total face value of \$6,000,000 thousand.
- (3) Based on the purpose of industry-university cooperation and cultivating talents, the Company's Board of Directors resolved on March 8, 2024, and plan to build a new building at the National Yang Ming Chiao Tung University. After the construction is completed, it will be donated to the National Yang Ming Chiao Tung University.
- (4) In order to obtain a stable supply of the required parts, the Company prepaid the amount of US\$120,000 thousand to its supplier on January 4, 2024, with the approval of Board of Directors.

Phison Electronics Corp. and subsidiaries
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12. Other

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

By item	By function	For the year ended December 31,					
		2023			2022		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		765,446	7,976,454	8,741,900	963,266	7,125,126	8,088,392
Labor and health insurance		76,907	451,928	528,835	88,433	379,495	467,928
Pension		31,663	253,501	285,164	38,606	194,535	233,141
Others		36,580	182,300	218,880	49,246	177,789	227,035
Depreciation		205,708	479,974	685,682	205,125	445,649	650,774
Amortization		1,914	517,244	519,158	2,027	393,767	395,794

- (2) The Company was served two complaints from Taiwan Hsinchu District Court on November 8, 2019 and December 13, 2019, that the Securities and Futures Investors Protection Center (“SFIPC”) filed the following two civil action:
- A. To ask to remove Mr. K.S. Pua from the Company’s Board Director Position (“Removal Action”);
 - B. To claim monetary damage amounting New Taiwan Dollars \$697,389 thousand against the Company, its board of directors and other co-defendants on behalf of certain investors (“Class Action”).

These two civil actions were derivative litigations from the criminal litigation associated with the Company’s financial case occurred on August 05, 2016. The Company has engaged attorneys to answer and ask the court to dismiss SFIPC’s allegations. Of which, Taiwan High Court rendered judgment on December 20, 2022, to dismiss the Removal Action. SFIPC disagreed court judgment and filed petition for appeal to Supreme Court. Nevertheless, since Mr. K.S. Pua had resigned from the Company’s chairman and board director position on November 18, 2021, the Removal Action’s future development has no influence to the Company. With regard to the Class Action, even though its future development and possible consequence could not be assessed by the Company, at current stage it has no significant influence to the Company’s finance and operations.

Phison Electronics Corp. and subsidiaries
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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 December 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 with amount exceeding the lower of NT\$300 million or 20% of the capital stock: 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.
- B. Limitation on investment in Mainland China: Please refer to Table 6.
- C. Significant transactions:

For the year ended December 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”.

Phison Electronics Corp. and subsidiaries
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(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	9.67 %

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

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

14. Segment information

(1) General information

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

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

(2) Product information

Please refer note 6(23).

Phison Electronics Corp. and subsidiaries
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(3) Geographic information

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

A. Revenue from external customers:

Please refer to note 6(23).

B. Non-current assets:

Geography	December 31, 2023	December 31, 2022
Asia	\$ 7,718,309	8,065,953
America	59,068	37,220
	\$ 7,777,377	8,103,173

(4) Major customer

There was no single customer that accounted for 10% or over of the Group's revenue for the years of 2023 and 2022.

Phison Electronics Corp. and Subsidiaries
Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures)
December 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				Highest Percentage of ownership (%) during the year	Note
				Shares	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	777,129	10.23	777,129	10.23	
	Orient Semiconductor Electronics, Ltd.	-	Same as above	1,536	83,732	0.19	83,732	0.89	
	Acer Synergy Tech Corp.	-	Same as above	90	<u>7,452</u>	0.41	7,452	3.00	
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	4,455	<u>88,372</u>	11.11	88,372	11.11	
	Taiwan Capital Buffalo Fund Co., Ltd. (formerly known as Taishan Buffalo Investment Co., Ltd.)	-	Same as above	46,300	30,649	1.08	30,649	1.08	
	Innorich Venture Capital Corp.	-	Same as above	3,000	13,698	5.61	13,698	5.61	
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	<u>3,704</u>	0.67	3,704	0.67	
					<u>136,423</u>				

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares	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	116,876	17.16	116,876	17.16	
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	64,689	2.92	64,689	2.92	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	20,930	19.00	20,930	19.00	
	H3 Platform, Inc.	-	Same as above	18,400	1,818	12.14	1,818	12.14	
	Gospal Ltd.	-	Same as above	811,857	3,059	3.19	3,059	3.19	
	AppWorks Fund IV L.P.	-	Same as above	100,000	71,926	8.43	71,926	9.86	
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-	0.35	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.79	-	12.79	
	GeoThings, Inc.	-	Same as above	150	-	3.13	-	3.13	
	Ironyun Incorporated	-	Same as above	5,000	-	2.94	-	3.76	
	Deep Mentor Inc.	-	Same as above	700	16,800	3.72	16,800	3.72	
					<u>296,098</u>				
	<u>Private equity funds</u>								
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss – non-current	6,000	27,201	3.78	27,201	3.78	

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares	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	42,755	1.18	42,755	1.18	
	Translink Capital Partners IV L.P	-	Financial assets at fair value through profit or loss – non-current	960	<u>35,878</u>	0.59	35,878	0.59	
						<u>78,633</u>			
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income – non-current	2,111	42,105	4.75	42,105	4.75	
	Translink Capital Partners V, L.P.	-	Same as above	1,050	21,848	1.71	21,848	1.93	
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	50,000	38,861	3.19	38,861	3.19	
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	21,786	7.39	21,786	8.20	
	New Future III Limited Partnership	-	Same as above	28,003	20,770	3.38	20,770	5.13	
Omni Media International Incorporation	-	Same as above	1,714	<u>7,697</u>	2.60	7,697	2.60		
					<u>153,067</u>				

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Fair Value		
Emtops Electronics Corporation	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income – non-current	-	<u>-</u>	19.00	-	19.00	
Phisontech Electronics	<u>Beneficiary certificates-open-end funds</u>								
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss – current	167	30,568	-	30,568	-	
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss – current	1,917	20,369	-	20,369	-	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,385	-	20,385	-	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,385	-	20,385	-	
	Capital Money Market Fund	-	Same as above	1,229	<u>20,387</u>	-	20,387	-	
					<u>112,094</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>8,292</u>	12.53	8,292	12.53	

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 year ended December 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	10,032,575	35	Net 30 days after monthly closing	None	None	(1,028,950)	(16)	
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	504,947	2	Net 30 days after monthly closing	None	None	(115,699)	(2)	Note 2
	Kioxia Corporation	The Company's director	Sales	(420,574)	(1)	Net 60 days after monthly closing	None	None	162,859	2	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(424,233)	(1)	Net 60~90 days after monthly closing	None	None	84,234	1	
	Apacer Technology Inc.	The Company is its director	Sales	(1,052,816)	(2)	Net 45 days after monthly closing	None	None	351,979	4	
	UD INFO Corp.	The Company is its Parent Company's director	Sales	(307,446)	(1)	Net 45 days after monthly closing	None	None	43,336	-	

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	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(2,543,887)	(5)	Net 45~75 days after monthly closing	None	None	1,116,443	12	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(132,698)	-	T/T in advance to net 60 days after monthly closing	None	None	24,501	-	
	Hosin Global Electronics Co., Ltd. (SZ)	Associate	Sales	(100,275)	-	Net 30 days after and net 75 days after monthly closing.	None	None	146	-	
	Nextorage Corporation	Subsidiary	Sales	(608,197)	(1)	Net 60 days after monthly closing	None	None	94,253	1	Note 2
	Phison Technology Inc.	Sub-subsidiary	Sales	(494,907)	(1)	Net 45 days after monthly closing	None	None	165,029	2	Note 2
	ProGrade Digital Incorporated	Associate	Sales	(346,916)	(1)	Net 30 days after monthly closing	None	None	24,234	-	

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

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

Phison Electronics Corp. and Subsidiaries
Receivables from Related Parties Amounting to at least NT\$100 Million or 20% of the Paid-in Capital
December 31, 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	351,979	4.33	-	-	351,977	599	
	Kioxia Corporation	The Company's director	162,859	1.80	-	-	162,859	277	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	1,116,443	3.79	-	-	614,617	1,901	
	Phison Technology Inc.	Sub-subsidiary	165,029	6.00	-	-	139,142	-	

Note 1: Information as of February 29, 2024.

Phison Electronics Corp. and Subsidiaries
Business relationships and significant intercompany transactions
For the year ended December 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	Ostek Corporation	1	Manufacturing cost	29,887	General trading terms	0.06
		Super Storage Technology Corporation	1	Processing cost	504,947	General trading terms	1.05
		Phison Technology Inc.	1	Accounts payable	115,699	General trading terms	0.18
			1	Sales	494,907	General trading terms	1.03
			1	Accounts receivable	165,029	General trading terms	0.25
			1	Marketing expenses	499,719	General trading terms	1.04
		Nextorage Corporation	1	Other payables	40,757	General trading terms	0.06
			1	Sales	608,197	General trading terms	1.26
			1	Accounts receivable	94,253	General trading terms	0.14
		Power Storage Technology (Shenzhen) Limited	1	Marketing expenses	60,959	General trading terms	0.13
1	Other payables		17,361	General trading terms	0.03		
Phison Electronics Japan Corp.	1	Marketing expenses	18,279	General trading terms	0.04		

Note 1: 1.Parent Company to its subsidiaries

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

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

Table 5

(Amounts in Thousands)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 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	2,883,955	100.00	(134,528)	(134,528)	Subsidiary and note 2
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	1,283,888	100.00	(117,244)	(117,244)	Subsidiary and note 2
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	581,363	55,000,000	100.00	764,545	100.00	59,213	59,226	Subsidiary and note 2
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	484,909	100.00	(18,199)	(18,199)	Subsidiary and note 2
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	201,413	30.51	(1,991)	(607)	Investee accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	417,832	100.00	20,694	20,694	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	496,596	100.00	108,939	108,939	Subsidiary and note 2
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	153,254	100.00	6,082	6,082	Subsidiary and note 2

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/ Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)	Carrying Value				
The Company	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	148,009	28.71	74,245	21,315	Investee accounted for using the equity method
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	28,079	100.00	753	753	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	9,354	100.00	876	876	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	26,198	49.00	976	479	Investee accounted for using the equity method
								<u>6,898,032</u>			<u>(52,214)</u>	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	26,866	100.00	(253)	Note 1	Sub-Subsidiary and note 2
Emtops Electronics Corporation	Phison Technology Inc.	USA	Sale of electronic products and business service office	90,419	90,419	3,000,000	100.00	151,059	100.00	18,804	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	-	-	-	877	Note 1	Subsidiary and note 2
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	646,160	100.00	60,126	Note 1	Sub-subsidiary and note 2

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)	Carrying Value				
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	2,890,791	100.00	(134,384)	Note 1	Sub-subsidiary and note 2
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	101,301	100.00	4,239	Note 1	Sub-subsidiary and note 2
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	1,309,063	100.00	(117,129)	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 aforementioned inter-company transactions and balance have been eliminated in the consolidated financial statements.

Phison Electronics Corp. and Subsidiaries
Information on Investment in Mainland China
For the year ended December 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 December 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 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	(54,967)	100.00	100.00	(54,967)	124,542	-	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)	-	-	-	-	(226,654)	24.23	24.23	(54,923)	118,508	-	-
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,958,329	2(1) and 2(2)	442,780	-	-	442,780	911,461	35.83	39.04	(197,411)	3,568,743	-	-

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 December 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2023	Note
					Outflow	Inflow								
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	43,520	2(3)	43,520	-	-	43,520	1,892	100.00	100.00	1,892	45,539	-	Note 3

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of December 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 2)
669,125	1,380,908	25,672,892

Note 1: Method of investment.

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

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

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