

Phison Electronics Corporation Handbook for 2020 Annual General Meeting of Shareholders

Meeting time: June 3, 2020

Venue: No. 1, Qunyi Road, Zhunan Township, Miaoli County Conference Room on the 1st floor of the Company's 1st factory (located in Guangyuan Science and Technology Park)

Notice to Readers

For the convenience of readers, the Handbook for the 2020 Annual General Shareholders' Meeting have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese version of the Handbook for the 2020 Annual General Shareholders' Meeting shall prevail.

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Phison Electronics Corporation
Meeting Procedure of 2020 Annual General Meeting of
Shareholders

I. Meeting Procedure

1. Calling the Meeting to order
2. Chairman's Remarks
3. Matters to Report
4. Proposals
5. Election
6. Discussions
7. Extraordinary Motions
8. Adjournment

Phison Electronics Corporation

Agendas of 2020 Annual General Meeting of Shareholders

II. Meeting Agenda

Meeting time: 9 a.m., Wednesday, June 3, 2020

Venue: No. 1 Qunyi Road, Zhunan Township, Miaoli County

Conference Room on the 1st floor of the Company's 1st factory (located in Guangyuan Technology Park)

Meeting chairperson: Mr. Khein Seng Pua, Chairperson of the Board

1. Meeting Chairperson's Remarks

2. Matters to Report

Case No. 1: The Company's 2019 business report.

Case No. 2: The Company's Supervisor 's Report on the review of the 2019 Financial Report.

Case No. 3: Report on 2019 Employees' and Directors' Remuneration Distribution.

Case No. 4: Report on the actual handling situation of 2019 general shareholders' meeting's resolution on private placement of common shares.

Case No. 5: Report of the Company's Investment in the Mainland.

Case No. 6: Amendment to part of the "Rules of Procedure for Board of Directors Meetings".

3. Proposals

Case No. 1: The Company's 2019 business report and financial statements.

Case No. 2: The Company's 2019 surplus earning distribution.

4. Election

Case No. 1: Election of the 9th session of the Company's directors, including 9 directors (and 3 independent directors).

5. Discussions

Case No. 1: The Company's private placement of common shares.

Case No. 2: Amendment to part of the Articles of Association of the Company.

Case No. 3: Release of the New Directors from Non-Competition Restrictions.

6. Extraordinary Motions

7. Adjournment

III. Matters to Report

Case No. 1: (Proposed by the Board)

Note: The Company's 2019 business report.

Explanation: For the Company's 2019 business report, please refer to Attachment 1 on page 16 to 21 of this handbook.

Case No. 2: (Proposed by the Board)

Note: The Company's Supervisor's Report on the review of the 2019 Financial Report.

Explanation: 1. The financial report of the Company for the year of 2019, including Individual Financial Statements (including Individual Balance Sheets, Individual Statements of Comprehensive Income, Individual Statements of Changes in Equity, Individual Statement of Cash Flows) and Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statements of Cash Flows) have been audited by accountants. The Business reports and Surplus Earning Distribution have been reviewed by the supervisors and filed in accordance with Article 219 of the Company Act. Please refer to Attachment 2 on page 22 of this handbook.

2. Supervisor reads the review report.

Case No. 3: (Proposed by the Board)

Note: Report on 2019 Employees' and Directors' Remuneration Distribution.

Explanation: 1. According to Article 19 of the Articles of Association of the Company, "If the Company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations."

2. In the year of 2019, the Company earned NT\$6,025,446,147 (the amount represents the pre-tax profit before deducting of employees' and directors' remuneration), and it intends to distribute NT\$650,000,000 from 2019's profits for employees' compensation (about 10.79% of the profits for the year 2019) and NT\$35,000,000 for directors and supervisors (about 0.58% of the profits for the year 2019), all in cash.

Case No. 4 (Proposed by the Board)

Note: Report on the actual handling situation of 2019 general shareholders' meeting's resolution on private placement of common shares.

Explanation: The Company resolved a private placement of common shares which do not exceed 18,000,000 shares at the 2019 general shareholders' meeting on June 12, 2019, and resolution was granted to proceed one or two times within one year from the date of the resolution of the general shareholders' meeting. As the date upon which such resolution expired; therefore, the board of directors decided that this private placement will no longer be conducted.

Case No. 5 (Proposed by the Board)

Note: Report of the Company's Investment in the Mainland.

Explanation: Please refer to Attachment 3 on page 23 to 24 of this handbook for information on the Company's investment in the Mainland in 2019.

Case No. 6 (Proposed by the Board)

Note: Amendments to certain articles of the Company's "Rules of Procedure for Board of Directors Meetings".

- Explanation:
1. To facilitate the operational needs of the Company, the Company's "Rules of Procedure for Board of Directors Meetings" is amended pursuant to the Regulations Governing Procedure for Board of Directors Meetings of Public Companies issued in accordance with the Jin-Guan-Zheng-Fa No. 1080361934 of the Financial Supervisory Commission dated January 15, 2020.
 2. Please refer to Attachment 4 on pages 25 to 33 of this handbook for the comparison table of the amendments to the "Rules of Procedure for Board of Directors Meetings".

IV. Proposals

Case No. 1 (Proposed by the Board)

Note: The Company's 2019 Business Report and Financial Statements.

Explanation: 1. The Business Report and Individual Financial Statements of the Company for the year of 2019 (including Individual Balance Sheets, Individual Statements of Comprehensive Income, Individual Statements of Changes in Equity, Individual Statement of Cash Flows) and Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statements of Cash Flows) have been compiled and audited by independent auditors, Dai Xin wei and Kuo Li Wen, of Deloitte & Touche and Supervisors. Please refer to the above Financial Statements together with the Business Report.

2. For the 2019 Business Report, Individual Financial Statements and Consolidated Financial Statements, please refer to Attachment 1 on pages 16 to 21 and Attachment 5 on pages 34 to 58, of this handbook respectively.

Resolution:

Case No. 2 (Proposed by the Board)

Note: The Company's 2019 surplus earning distribution.

Explanation: 1. The net profit after tax in 2019 was NT\$4,543,488,522. In accordance with the Company's Articles of Association, surplus earning distribution shall be determined. The company's 2019 surplus earning distribution is as follows:

Phison Electronics Corporation
PROFIT DISTRIBUTION TABLE
Year 2019

(Unit: NTD\$)

Retained earnings at the beginning of the period	11,853,802,754
Net profit after tax of Year 2019	4,543,488,522
The actuarial losses of defined benefit plans of Year 2019 be included in retained earnings	(1,155,695)
Cumulative unrealized gain (loss) on equity instruments transferred to retained earnings due to disposals	15,823,653
The total of, the net profit after tax of Year 2019 plus the else items of the period be included in the undistributed earnings	4,558,156,480
10% Legal Reserve	(455,815,648)
Reversal of Special Reserve based on regulations	204,802,054
Distributed earnings as of December 31, 2019	16,160,945,640
Distributable items:	
Dividend to shareholders-Cash (Distributed NT\$13 per share)	2,561,961,909
Unappropriated retained earnings by the end of the period	13,598,983,731

Chairperson:

Manager:

Accounting Supervisor:

- The cash dividends distributed to the shareholders of the Company during 2019 was NT\$2,561,961,909, NT\$13 per share. Dividends are allocated based on the shareholding ratio of shareholders listed on Shareholders' Rosters on the ex-dividend record date. The cash dividends are calculated up to NT\$1. Decimal points are rounded down and the uncounted shares in fractions of NT\$1 shall be transferred to the Company's Employee Benefits Committee. The aforesaid distribution ratio was calculated based on the Company's total outstanding shares as of March 16, 2020, 197,073,993 shares. Upon the resolution of cash dividend by general shareholders' meeting, the chairman will be authorized to set up the ex-dividend record date and related matters. If there is change in the total number of shares outstanding on the ex-dividend record date, the chairman will be authorized to recalculate the cash dividend payout ratio based on the number of outstanding shares on the ex-dividend record date.

Resolution:

V. Election

Case No. 1 (Proposed by the Board)

Note: Election of the 9th session of the Company's directors, including 9 directors (and 3 independent directors)

Explanation: 1. The term of office of the Company's 8th (existing) session of directors and supervisors will expire on June 12, 2020. In accordance with the Company Act and the Company's Articles of Incorporation, the Company proposes to elect the 9th session of directors, including 9 directors (and 3 independent directors) at the general shareholders' meeting this year.

2. The Company will be established an audit committee in accordance with the Securities and Exchange Act and the Company's Articles of Incorporation and no longer has a supervisor in accordance with the law. The audit committee consists of all independent directors.
3. 9 directors (including 3 independent directors) will be re-elected for the 9th session of directors. The new directors will be appointed immediately after the end of the shareholders' meeting for a term of three years from June 3, 2020 to June 2.
4. The election of directors (including independent directors) of the Company adopts a candidate nomination system, which is based on a list of director candidates elected at the shareholders' meeting. For the list of director (including independent director) candidates approved by the board of directors, please refer to Attachment 6 on page 59 to 62 of this handbook.
5. Submitted for election.

Election results:

VI. Discussions

Case No. 1 (Proposed by the Board)

Note: The Company's private placement of common shares.

Explanation: 1. In order to introduce strategic investors and strengthen its long-term cooperative relationship with strategic partners so as to facilitate the company's long-term operation and business development, it is proposed to conduct a private placement to increase capital in cash by issuance of new shares (hereinafter referred to as “Private placement of common shares of this fiscal year”), in compliance with the provisions of Article 43-6 of the Securities and Exchange Act, etc. It is expected that the total amount of private placement of common shares will not exceed 18,000,000 shares at par value of NT\$10 per share and the increase in paid-in capital will not exceed NT\$180,000,000.

2. According to the provisions of Article 43-6 of the Securities and Exchange Act and the “Directions for Public Companies Conducting Private Placements of Securities”, the explanations are as follows:

(1) The basis and rationality of the pricing of private placement

A. As to the pricing of the private placement of common shares, the price of per share shall not be lower than 85% of the higher price of the following two calculations before the price determination date:

(i) The simple average closing price of the common shares is calculated based on either the 1, 3, or 5 business days before the price determination date and is adjusted upon distribution of stock dividends and cash dividends, and capital reduction.

(ii) The simple average closing price of the common shares is calculated based on 30 business days before the price determination date, and is adjusted upon distribution of stock dividends and cash dividends, and capital reduction.

- B. The actual price determination date and the actual price of private placement shall not be less than the range decided by the shareholders' meeting. The board of directors will be authorized to determine the price based on the aforesaid price, future specific persons' situation and market conditions.
 - C. The pricing method of this private placement price is based on the "Directions for Public Companies Conducting Private Placements of Securities" and considers that the company's future prospects and the timing, object, and quantity of private placement of securities transfer are strictly limited. Moreover, it is also not possible to be listed on the TPEX within three years and the liquidity is poor. Therefore, the pricing of the private placement of this fiscal year shall be reasonable, and would cause no major impact on shareholders' equity.
- (2) Methods of selecting specific persons
- A. The object of the private placement of common shares is in accordance with Article 43-6 of the Securities Exchange Act and the Order Tai-Cai-Zheng-Yi No. 0910003455 of the Financial Supervisory Commission of the Executive Yuan issued on June 13, 2002, a specific person as strategic investor.
 - B. Offerees are intended to be strategic investors:
 - (i) Method and purpose of selecting offerees: Due to the Company's long-term business and business development needs, it will give priority to those who may directly or indirectly contribute to the future operation of the Company, and can help the Company expand its business and product market, strengthen customer relations, or enhance product development integration benefits, or can improve technology, and can identify with the Company's business philosophy of strategic investors.

(ii) Necessity: The purpose of selecting offerees is to introduce strategic investors and strengthen long-term cooperation with strategic partners. Through strategic investors, the long-term competitiveness and operational effectiveness of the company can be enhanced, which is necessary.

(iii) Expected Benefits: It is expected that through strategic investors' experience, product technology, knowledge, brand reputation, and market access, we can cooperate with investors in strategic cooperation, joint product development, market integration, or business development cooperation, which will help the Company to reduce operating costs, improve product technology, and expand its sales market to improve the company's future operating performance.

C. There are at present no offerees.

(3) Necessary reasons for private placement:

A. Reasons for not adopting public offerings: Considering factors such as capital market conditions, issuance costs, timeliness and feasibility of fundraising for private placements, and restrictions on private placement of shares that cannot be freely transferred within three years, etc. In this way, it can ensure and strengthen strategic partnerships in a closer long-term cooperation relationship. Therefore, public offering is not adopted this time, and a private placement to increase capital in cash by issuance of new share is conducted instead.

B. The quota of private placement: The total quota of this private placement of common shares shall not exceed 18,000,000 shares, and will be processed once or twice within one year from the date of the resolution of the shareholders' meeting.

C. The capital purpose and the estimated benefits of private placement of common shares processed in different tranches.

Processing times	Capital purpose	Expected results
Once in a single transaction	Seek opportunities for technical cooperation or strategic alliances with domestic and foreign industrial companies, and at the same time, enrich working capital and meet the company's long-term operational development needs	Reduce the company's operating risks, strengthen its financial structure, and improve the company's future operating performance
Twice in two transactions	Two occasions are to seek technical cooperation or strategic alliance with domestic and foreign industrial companies. At the same time, it enriches the working capital and meets the needs of the company's long-term operation and development.	Two occasions are to reduce the company's operating risk, strengthen its financial structure, and improve the company's future operating performance.

- (4) One year before the private placement of this fiscal year resolved by the board of directors, there was no major change in the operating rights, and the total amount of private placement of common shares is not expected to exceed 18,000,000 shares this time, accounting for 8.37% of the estimated total amount of paid-in capital after private placement. This time, offerees will be limited to strategic investors and will have a positive effect on the development of the company's business. It is expected that the introduction of strategic investors in private placement will not cause major changes in the operating rights.

- (5) Other matters that should be stated:

A Regarding the private placement of common shares of this

fiscal year, the rights and obligations are in principle the same as the common shares issued by the Company, but according to the provisions of Article 43-8 of the Securities and Exchange Act, in addition to the objects and conditions of the assignment as prescribed by the provisions, in principle, the private placement of common shares shall not be freely transferable within three years from the date of delivery. After the full three years from the delivery date, the company plans to obtain a consent letter from the over-the-counter trading center in accordance with the relevant provisions of the Securities and Exchange Act, etc. The Company shall apply for re-issuance of the public offering of private placement of common shares and application for the transaction of the counter with the competent authority.

- B. The main contents of the private placement of common shares of this fiscal year include actual number of private placement shares, actual private placement price, selection of applicants, record date, issuance conditions, project items, capital use and progress, projected benefits, and other related issues. Etc., etc., and all other matters related to the issuance plan, intended to be brought to the shareholders' meeting to authorize the board of directors to adjust, determine and handle based on the market conditions, and if future changes such as due to amendments in laws or regulations or when required by the competent authority or based on operational assessment, or due to changes in the objective environment, the board of directors will be authorized to handle it completely.
- C. In addition to the aforesaid scope of authorization, it is proposed that the Chairperson is authorized to sign, negotiate, and change all contracts and documents relating to private placement of common shares on behalf of the Company, and to handle all necessary matters regarding to private placement of common shares for the company.

Resolution:

Case No. 2 (Proposed by the Board)

Note: Amendment to part of the Articles of Association of the Company.

Explanation: 1. In order to meet the necessity of business operation, the Company would amend the Articles of the Association.

2. Please refer to Attachment 7 on pages 63 to 78 of this handbook of amendment comparison table for the Articles of the Corporation.

Resolution:

Case No. 3 (Proposed by the Board)

Note: Discussion on Release of the New Directors from Non-Competition Restrictions.

Explanation: 1. According to paragraph 1 of Article 209 of Company Act, “A director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval”.

2. For the fact that the directors of the Company may invest in or operate other companies within the same or similar business scope of the Company and act as directors, in order to meet the actual needs, without prejudice to the interests of the Company, the General Meeting is required to release the new directors from Non-competition restrictions according to laws.
3. For Details for Release of the New Directors from Non-Competition Restrictions, please refer to Attachment 8 on page 79 of this handbook.

Resolution:

VII. Extraordinary Motions

VIII. Attachments

PHISON Electronics Corporation

2019 Business Report

1. Operating Strategy and Execution Overview :

Year of 2019 ended smoothly under various disturbances such as the US-China trade war and Brexit. Phison Electronics (TPEX: 8299) has also remained to grow steadily under the impact of various industrial challenges and continues to develop new products to meet market demands. During 2019, faced with the changes in the main raw material prices of the industry and market challenges, Phison Electronics has actively deployed the global market with its technological leadership, allowing Phison Electronics to operate stably in 2019. With the unremitting efforts of all the members of Phison, the consolidated total revenue for 2019 is approximately NT \$ 44.7 billion, the consolidated after-tax surplus is approximately NT \$ 4.5 billion, and the after-tax EPS is NT \$ 23.05.

In 2019, the total shipments of the company's SSD products and embedded memory related controller chips and finished products accounted for 57% of the company's overall revenue, an increase of approximately 37% YoY, and actively developed UFS controller chips to become the best choice for next-generation high-performance embedded storage devices. The R&D team also continues to invest in key IP development and process optimization to provide an updated and more complete product lineup, moving toward the next major industry milestone.

With the gradual realization of global 5G infrastructure and product applications, the linkage has made high-speed cloud services, big data, AI, Internet of Things, etc. more vigorous. Moreover, coupled with the upgrade of various e-sports software and game console specifications, the increasing demand for high-speed data access is expected to continue to rise while the penetration rate of ultra-high-speed solid-state drives (SSDs) maintain rapid growth. Therefore, Phison has launched different NAND Flash controller chips in response to different application markets, including PCIe Gen 3x4 NVMe SSD controller. In addition to the industry-leading PCIe Gen4x4 NVMe SSD controller chip, Phison has further developed the world's first PCIe Gen4x4 SSD solutions with data transfer speed of more than 5GB/s, adding new profits to the company's aggressive approaches on the mainstream NAND application device market.

In the high-end application/enterprise-level SSD application market, Phison's ultra-high-speed, low-latency 8-channel PCIe Gen3x4 controller chips and SSDs of various specifications are recognized by the market. In terms of embedded applications, the company, as one of the few industry leaders in the world that provides complete eMMC and UFS, is committed to lower power consumption and lower heat generation technology, continuously pushing BGA SSD to PCIe NVMe specifications, providing ultra-high speed of data storage for embedded applications, and pushing mobile storage devices into a new, faster, and more energy efficient generation. Additionally, Phison is leading the launch of a new controller chip that supports UFS3.0, especially with the company's own technologies such as StrongECC™, advance LDPC, CoProcessor™ and RAID architecture, so it not only provides low power consumption, but also demonstrates excellent error correction capabilities approaching SSD-like performance

In terms of memory cards, the company released the latest controller chip for SD & microSD cards that are compatible with the SD 6.0 A2 specification. It has the absolute advantage of high-speed random access and provides up to 1TB of data storage capacity. It is the highest specification in the market and aims at high-storage-capacity application market. Speaking of USB products, Phison's latest portable SSD achieves the highest performance for external SSD market. The iDUO Lightning and C-Thru USB3.1 solutions allow users to charge mobile phones or mobile devices at the same time when using high-speed storage devices. In addition, each product line of Phison Electronics also supports 3D QLC NAND Flash with more competitive prices, which can more fully meet market demand.

Looking forward to 2020, the global economy is expected to recover moderately, but current international issues, including public health control, US-China trade negotiations and the Brexit agreement, may still trigger economic fluctuations from time to time, and Phison will continue to pay attention and respond in a timely manner. At the same time, Phison will continuously focus on researching and developing NAND controller IC technologies, expanding investment, and new product strategies, particularly for NAND storage applications and markets, in order to deepen market competitiveness, continue to expand the market territory, and solid foundation to maintain a leading position.

2. 2019 Business Results

(1) Description of business results:

① Consolidated operating revenue:

The consolidated net operating revenue of the company for the year 2019 was NT\$44,693,441 thousand, which was an increase of 9.57% compared with the year of 2018 of NT\$40,788,105 thousand.

② Consolidated net profit after tax:

The consolidated net profit after tax of the company for the year 2019 was NT\$4,545,837 thousand, which was an increase of 5.27% compared with the year of 2018 of NT\$4,318,119 thousand.

(2) Budget implementation: The Company did not disclose its financial forecasts of the year of 2019, so it is not necessary to publicly disclose the implementation of the budget.

(3) Financial balance and profitability analysis:

① Consolidated operating revenue and expenditure:

Unit: Thousands of New Taiwan Dollars

Item	2019	2018	Increases (decreases)	Proportion of the changes (%)
Operating revenue	44,693,441	40,788,105	3,905,336	9.57
Gross profit	11,149,275	9,131,954	2,017,321	22.09
Net Operating Income	5,210,013	4,709,784	500,229	10.62
Non-operating income and expenses	140,921	295,397	(154,476)	(52.29)
Net profit after tax	4,545,837	4,318,119	227,718	5.27

② Financial profitability of consolidated operation

Item		2019	2018
Financial structure	Liability to asset ratio (%)	24.45	26.14
	Long-term asset to real estate, plant and equipment ratio (%)	889.10	899.99
Debt-paying ability	Current ratio (%)	343.42	324.92
	Quick ratio (%)	216.46	243.81
	Interest coverage ratio (times)	2,668.46	988.22
Operation performance	Receivables turnover ratio (times)	8.00	7.43
	Average days of receipt (days)	45.62	49.12
	Inventory turnover ratio (times)	3.51	4.29
	Average sales days (days)	103.98	85.08
	Payables turnover ratio (times)	7.94	7.49
	PP&E turnover ratio (times)	14.25	14.03
	Total asset turnover ratio (multiples)	1.21	1.14
Profitability	Return on assets (%)	12.11	12.08
	Return on equity attributable to owners of parent company (%)	16.21	16.30
	Ratio of operating income to paid-in capital (%)	264.37	238.99
	Ratio of pre-tax income to paid-in capital (%)	271.52	253.97
	Net income ratio (%)	10.17	10.59
	Basic earnings per share (NTD)	23.05	21.91
Cash flow	Cash flow ratio (%)	0.00	55.34
	Cash flow adequacy ratio (%)	83.19	114.62
	Cash re-investment ratio (%)	(9.17)	6.73
Leverage	Degree of operating leverage (DOL)	1.09	1.09
	Degree of financial leverage (DFL)	1.00	1.00

(4) Overview of R&D

① Research and development costs in the most recent two years:

The consolidated R&D expenses in 2019 and 2018 were NT\$4,714,400 thousand and NT\$3,495,417 thousand respectively, which accounted for 10.55% and 8.57% of the consolidated operating revenue respectively. As of fiscal year 2019, the company has obtained 1,588 patent approvals from various countries.

② R & D results:

The following products have been successfully developed and launched in 2019, including:

- Developed a lower power MIPI Gear 4 PHY as the interface for the UFS Unipro flash memory controller chip.
- Developed the world's first PCIe 4th Gen SSD whose transfer rate is over 5GB/s.
- Developed the latest generation of LDPC+DSP ECC engine, which is able to more effectively support 3D NAND data.
- Developed USB3.1 flash drive that supports high random write performance.
- Developed 2nd generation core-power management system of flash memory which simplifies the firmware operating process and increases data transfer efficiency to lower power-consuming.
- Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices.
- Developed controller chips and solutions that support 3D QLC NAND.
- Developed a low power-consuming RAID ECC engine for mobile devices.
- Developing low-power yet high performance SSD controllers by supporting HMB feature leveraging host memory buffer.
- Developing SiP(system-in-package) technology of flash memory module.
- Developed design/qualification methodologies and functional modules which comply with automotive specification to support variety of automotive applications.
- Developed highly integrated embedded SSD with high low latency and low WAF.

③ According to the analysis of market demand trend, industry competition strategy, Phison plan to continuously upgrade current product line and develop new products as follows in 2020:

- High speed, high capacity USB 3.2 Gen 2x2 Flash Drive solutions.
- High random write performance SD/microSD card and compliant with SD 7.0.
- The latest generation UFS controller chips that support high data rate of 3D NAND flash.
- High performance SSD that support the latest PCIe/NVMe protocol.
- Next generation PCIe PHYs for advance manufacturing process.
- High-end enterprise and datacenter SSD that support to higher capacity, performance and data error correction.
- New LDPC ECC engines for emerging 3D QLC NAND Flash.
- SiP technology for smaller-size, higher-capacity and power-saving SSDs.
- Automotive SSD solutions compliant with automotive industry standards.
- SiP technology of SSD solutions for variety of embedded application.

Phison Electronics Corp.

Khein Seng Pua, Chairperson

Cheek Kong Aw Yong, President

Shu Hua Chiu, Accounting Director

Supervisors' Review Report

The board of directors prepared the Company's 2019 Business Report and Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution, etc. Mr. Xin wei Dai and Ms. Li Wen Kuo, the independent auditors from the CPA firm of Deloitte & Touche audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution were audited by Supervisor and found no discrepancy, as reported in accordance with the Article 219 of the Company Act, please check.

To

2020 Annual General Meeting of Shareholders

Phison Electronics Corp.

Supervisor: Yeong Jiunn Yang

Supervisor: Huei Ming Wang

Supervisor: Chiun Hsiou Chen

March 16, 2020

PHISON ELECTRONICS CORP. AND SUBSIDIARIES
INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands)

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, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019	Note
					Outflow	Inflow						
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	b	\$ 53,096	\$ -	\$ -	\$ 53,096	100.00	\$ (2,260)	\$ 6,273	\$ -	b (2)
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	1,039,083	b	576,780	486,435	-	1,063,215	97.69	38,775	1,104,340	-	b (2)
Hefei Ruhuan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	b	182,825	-	-	182,825	100.00	(1,968)	174,418	-	b (1)
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and rendering of related services and investment	280,387	b	-	-	-	-	100.00	(10,522)	259,402	-	b (2)
Hefei Ximpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	618,078	b	-	-	-	-	43.62	(13,740)	245,507	-	b (1), b (2)
Hosin Global Electronics Co., Ltd.(SZ)	Design, R&D and sale of integrated circuits and electronics hardware and software and rendering of related services	588,160	b	-	183,640	-	183,640	38.46	99,795	390,993	-	b (1), b (2)

Accumulated Investments in Mainland China as of December 31, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investments (Note 2)
\$ 1,482,776 (US\$ 47,608)	\$ 1,514,933 (US\$ 48,790)	\$ 17,513,177

Note 1: Method of investment:

- a. Directly invested in mainland China.
- b. Indirectly invested in mainland China through companies registered in a third region.
 - 1) Indirectly invested in a China-based company through a company located in a third region, Regis Investment Limited, and its subsidiaries.
 - 2) Indirectly invested in a China-based company through a company located in a third region, Global Flash Limited, and its subsidiaries.

Note 2: The amounts were recognized based on audited financial statements.

(Concluded)

The comparison table of amended Rules of Procedure for Board of Directors Meetings

Article	Current Article		Article after the amendment		Description of amendment
	Article	Content	Article	Content	
Article 12	Article 12	<p>The following matters should be discussed by the board of directors of the company:</p> <ol style="list-style-type: none"> 1. The company's operating plan. 2. Annual and semi-annual financial reports. Semi-annual financial reports which, under relevant laws and regulations, need not be audited and attested by a certified public accountant (CPA). 3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system. 4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, 	Article 12	<p>The following matters should be discussed by the board of directors of the company:</p> <ol style="list-style-type: none"> 1. The company's operating plan. 2. Annual and semi-annual financial reports <u>signed or sealed by the Chairperson, Manager, and Accounting Manager</u>. Semi-annual financial reports which, under relevant laws and regulations, need not be audited and attested by a certified public accountant (CPA). 3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system. 4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension 	Amend according to Article 14-5 of Securities and Exchange Act

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>and endorsements or guarantees for others.</p> <p>5. Offering, issuance, or private placement of any equity-type securities.</p> <p>6. Appointment or discharge of a financial, accounting, or internal audit officer.</p> <p>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</p> <p>8. Any matter that, under Article 14-3 of the Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term related party in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities</p>		<p>of monetary loans to others, and endorsements or guarantees for others.</p> <p>5. Offering, issuance, or private placement of any equity-type securities.</p> <p>6. Appointment or discharge of a financial, accounting, or internal audit officer.</p> <p>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</p> <p>8. Any matter that, under Article 14-3 of the Act or any other law, regulation, or by law, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term related party in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the</p>	

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>Issuers. The term major donation to a non-related party means any individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NT\$100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term within a 1-year period in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>At least one independent director shall attend in person any meeting of the Board. With respect to a matter prescribed in Paragraph 1 that must be approved by resolution at a Board meeting, all independent directors shall attend the meeting in person or appoint another independent director to</p>		<p>Preparation of Financial Reports by Securities Issuers. The term major donation to a non-related party means any individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NT\$100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term within a 1-year period in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>At least one independent director shall attend in person any meeting of the Board. With respect to a matter prescribed in Paragraph 1 that must be approved by resolution at a Board meeting, all independent directors shall attend the meeting in</p>	

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	attend the meeting as a proxy. If independent directors have opposing or reserved opinions, these opinions shall be recorded in the Board meeting records; if independent directors cannot personally attend Board meeting to express their opposing or reserved opinion, they shall give a written opinion before the meeting unless they have an appropriate reason and the opinion shall be recorded in the Board meeting records.		person or appoint another independent director to attend the meeting as a proxy. If independent directors have opposing or reserved opinions, these opinions shall be recorded in the Board meeting records; if independent directors cannot personally attend Board meeting to express their opposing or reserved opinion, they shall give a written opinion before the meeting unless they have an appropriate reason and the opinion shall be recorded in the Board meeting records.	
Article 15	If any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter.	Article 15	If any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter.	Pursuant to the Order Jin-Guan-Zheng-Fa No. 1080361934 issued by the Financial Supervisory Commission on Januar 15, 2020.

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
Article 16	When the Board of Directors votes on resolutions, the provisions of Article 180, paragraph 2 of the Company Act is applied mutatis mutandis pursuant to Article 206, paragraph 3 of the same Act for directors who are prohibited from exercising their voting rights following the regulation of the preceding paragraph .	Article 16	<p>Where the spouse, a blood relative within the second degree of kinship of a director, or any company which has a controlling or subordinate relation with a director has interests in the matters under discussion in the meeting of the preceding paragraph, such director shall be deemed to have a personal interest in the matter.</p> <p>When the Board of Directors votes on resolutions, the provisions of Article 180, paragraph 2 of the Company Act is applied mutatis mutandis pursuant to Article 206, paragraph 4 of the same Act for directors who are prohibited from exercising their voting rights following the regulation of the preceding 2 paragraphs.</p>	
Article 16	Proceedings of the Board meetings shall be recorded in the meeting minutes. The meeting minutes shall record the following: 1. Session (or year), time, and place of meeting. 2. Name of the meeting chairperson. 3. Attendance of directors at the meeting,	Article 16	Proceedings of the Board meetings shall be recorded in the meeting minutes. The meeting minutes shall record the following: 1. Session (or year), time, and place of meeting. 2. Name of the meeting chairperson. 3. Attendance of directors at the meeting, specifying	Pursuant to the Order Jin-Guan-Zheng-Fa No. 1080361934 issued by the Financial Supervisory

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>specifying the names and number of members present, excused, and absent.</p> <p>4. Names and titles of those attending the meeting as nonvoting participants.</p> <p>5. Name of minutes taker.</p> <p>6. Matters reported on.</p> <p>7. Agenda items: the method and result of the resolution of each proposal; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director under Article 12-4.</p>		<p>the names and number of members present, excused, and absent.</p> <p>4. Names and titles of those attending the meeting as nonvoting participants.</p> <p>5. Name of minutes taker.</p> <p>6. Matters reported on.</p> <p>7. Agenda items: the method and result of the resolution of each proposal; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 and 2 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director under Article 12-4.</p>	Commission on January 15, 2020.

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>8. Extraordinary motions: the name of the mover; the method of resolution and the result for each motion; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing.</p> <p>9. Other matters required to be recorded.</p> <p>Any of the following matters in relation to a resolution passed at a meeting of the board of directors shall be stated in the meeting minutes and within two days of the meeting be published on an information reporting website designated by the competent authority:</p> <p>1. Any matter about which an independent director</p>		<p>8. Extraordinary motions: the name of the mover; the method of resolution and the result for each motion; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 and 2 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing.</p> <p>9. Other matters required to be recorded.</p> <p>Any of the following matters in relation to a resolution passed at a meeting of the board of directors shall be stated in the meeting minutes and within two days of the meeting be published on an information reporting website designated by the competent authority:</p> <p>1. Any matter about which an independent director</p>	

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>expresses an objection or reservation that has been included in records or stated in writing.</p> <p>2. That has not been approved by the audit committee of the Company but has been passed by more than two-thirds of all directors, if the company has an audit committee</p> <p>The attendance book forms a part of the minutes for each Board meeting and shall be well preserved during the existence of the company.</p> <p>The minutes of a board of directors meeting shall bear the signature or seal of both the meeting chairperson and the minutes taker; a copy of the minutes shall be distributed to each director and supervisor within 20 days after the meeting and well preserved as important company records during the existence of the company.</p> <p>The production and distribution of the meeting minutes referred to in paragraph 1 may be done in electronic form.</p>		<p>expresses an objection or reservation that has been included in records or stated in writing.</p> <p>2. <u>Any matter</u> that has not been approved by the audit committee of the Company but has been passed by more than two-thirds of all directors if the Company has an audit committee.</p> <p>The attendance book forms a part of the minutes for each Board meeting and shall be well preserved during the existence of the company.</p> <p>The minutes of a board of directors meeting shall bear the signature or seal of both the meeting chairperson and the minutes taker; a copy of the minutes shall be distributed to each director and supervisor within 20 days after the meeting and well preserved as important company records during the existence of the company.</p> <p>The production and distribution of the meeting minutes referred to in paragraph 1 may be done in electronic form.</p>	
Article 19	Establishment and amendment of these rules shall	Article 19	These rules, <u>and any amendment thereto, shall be</u>	Amend according

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	be approved by the Board of the Company and submitted to Shareholders' meeting for reporting.		<u>adopted after being approved by the Board of the Company.</u>	to the Company operating requirements.

2019 Annual Financial Statements

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the financial statements of Phison Electronics Corp. (the “Corporation”) which comprise the balance sheets as of December 31, 2019 and 2018, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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 financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Corporation's financial statements for the year ended December 31, 2019 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes that there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Corporation's customers are numerous and diverse, and the net sales of the Corporation for the year ended December 31, 2019 amounted to NT\$44,149,263 thousand. Therefore, there is a high possibility of abnormal sales from transactions with customers, and validity of such transactions may have a significant effect on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

Our main audit procedures performed in response to this matter, included the following:

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.
2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm the validity of sales transaction.
3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. Where such situations existed, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm any instances of repeated purchases and sales.

Emphasis of Matter

As stated in Note 30 to the accompanying financial statements, the Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office ("District Prosecutorial Office") on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the "Case"). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office ("High Prosecutors Office") for reconsideration. On November 18, 2019, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center ("Investors Protection Center") had filed two civil actions, respectively, as follows: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation's board ("Removal Action"); (2) the second civil action was to claim compensation damage against the Corporation, its board of

directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation had already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. As such, our audit opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the supervisors, are responsible for overseeing the Corporation’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 auditing standards generally accepted in 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 financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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 Corporation’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 Corporation'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 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 Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 statements 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 financial statements for the year ended December 31, 2019 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 Hsin-Wei Tai and Li-Wen Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2020

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with 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 financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

PHISON ELECTRONICS CORP.

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 8,276,554	22	\$ 12,778,312	36
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 24)	3,158,984	8	2,979,132	8
Financial assets at amortized cost (Notes 9 and 26)	20,383	-	30,576	-
Notes and accounts receivable				
Non-related parties (Note 10)	5,333,785	14	4,853,397	13
Related parties (Notes 10 and 25)	564,913	1	383,602	1
Other receivables (Note 10)	409,011	1	253,105	1
Inventories (Note 11)	11,443,733	30	7,491,072	21
Prepayments	281,215	1	62,823	-
Other current assets	2,467	-	8,521	-
Total current assets	29,491,045	77	28,840,540	80
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 24)	405,875	1	383,497	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Notes 8 and 24)	213,736	1	163,443	1
Investments accounted for using the equity method (Note 12)	4,256,081	11	3,141,430	9
Property, plant and equipment (Note 13)	3,263,440	8	2,961,130	8
Right-of-use assets (Note 14)	32,840	-	-	-
Intangible assets (Note 15)	267,339	1	149,381	-
Deferred tax assets (Note 20)	345,395	1	306,595	1
Guarantee deposits paid	4,202	-	2,570	-
Total non-current assets	8,788,908	23	7,108,046	20
TOTAL	\$ 38,279,953	100	\$ 35,948,586	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities	\$ 130,615	-	\$ 34,266	-
Notes and accounts payable				
Non-related parties	2,252,521	6	1,936,292	5
Related parties (Note 25)	1,385,981	4	2,861,765	8
Other payables (Note 16)	4,050,837	11	3,290,868	9
Tax payable (Note 20)	597,762	2	522,579	2
Lease liabilities (Note 14)	12,520	-	-	-
Other current liabilities (Note 17)	549,427	1	297,716	1
Total current liabilities	8,979,663	24	8,943,486	25
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 20)	21,930	-	-	-
Lease liabilities (Note 14)	20,702	-	-	-
Net defined benefit liabilities (Note 18)	94,945	-	92,827	-
Guarantee deposits received	393	-	403	-
Total non-current liabilities	137,970	-	93,230	-
Total liabilities	9,117,633	24	9,036,716	25
EQUITY (Note 19)				
Share capital				
Common shares	1,970,740	5	1,970,740	5
Capital surplus	6,724,104	18	6,674,650	19
Retained earnings				
Legal reserve	3,850,715	10	3,418,903	10
Special reserve	380,927	1	-	-
Unappropriated earnings	16,411,959	43	15,228,504	42
Total retained earnings	20,643,601	54	18,647,407	52
Other equity	(176,125)	(1)	(380,927)	(1)
Total equity	29,162,320	76	26,911,870	75
TOTAL	\$ 38,279,953	100	\$ 35,948,586	100

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated March 16, 2020)

PHISON ELECTRONICS CORP.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Note 25)				
Gross sales	\$ 44,812,822	101	\$ 41,027,588	101
Less: Sales returns and allowances	<u>663,559</u>	<u>2</u>	<u>371,291</u>	<u>1</u>
Net sales	44,149,263	99	40,656,297	100
Other operating revenue	<u>330,012</u>	<u>1</u>	<u>147,833</u>	<u>-</u>
Total operating revenue	44,479,275	100	40,804,130	100
OPERATING COSTS (Notes 11, 21 and 25)	<u>33,337,982</u>	<u>75</u>	<u>31,652,858</u>	<u>78</u>
GROSS PROFIT	<u>11,141,293</u>	<u>25</u>	<u>9,151,272</u>	<u>22</u>
UNREALIZED LOSS (GAIN) ON TRANSACTIONS	<u>11,288</u>	<u>-</u>	<u>(19,550)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>11,152,581</u>	<u>25</u>	<u>9,131,722</u>	<u>22</u>
OPERATING EXPENSES (Note 21)				
Marketing	636,791	1	525,116	1
General and administrative	618,075	1	384,276	1
Research and development	4,728,405	11	3,525,077	9
Reversal of expected credit losses (Note 10)	<u>(43,384)</u>	<u>-</u>	<u>(39,098)</u>	<u>-</u>
Total operating expenses	<u>5,939,887</u>	<u>13</u>	<u>4,395,371</u>	<u>11</u>
OPERATING INCOME	<u>5,212,694</u>	<u>12</u>	<u>4,736,351</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 21)	209,278	-	132,028	-
Other gains and losses (Note 21)	26,933	-	161,238	1
Share of losses of subsidiaries and associates (Note 12)	(106,453)	-	(24,194)	-
Financial costs (Note 21)	<u>(2,006)</u>	<u>-</u>	<u>(5,070)</u>	<u>-</u>
Total non-operating income and expenses	<u>127,752</u>	<u>-</u>	<u>264,002</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	5,340,446	12	5,000,353	12
INCOME TAX EXPENSE (Note 20)	<u>796,957</u>	<u>2</u>	<u>682,234</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>4,543,489</u>	<u>10</u>	<u>4,318,119</u>	<u>11</u>

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plan	\$ (1,445)	-	\$ (3,701)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	58,967	-	(106,094)	(1)
Share of the other comprehensive gain(loss) of associates and joint ventures accounted for using the equity method	206,249	1	(63,357)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 20)	289	-	2,171	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries and associates	(58,260)	-	(3,975)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 20)	<u>13,669</u>	<u>-</u>	<u>3,214</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>219,469</u>	<u>1</u>	<u>(171,742)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,762,958</u>	<u>11</u>	<u>\$ 4,146,377</u>	<u>10</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 22)				
Basic	<u>\$ 23.05</u>		<u>\$ 21.91</u>	
Diluted	<u>\$ 22.78</u>		<u>\$ 21.60</u>	

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated March 16, 2020)

(Concluded)

PHISON ELECTRONICS CORP.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Common Shares	Capital Surplus	Retained Earnings			Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Other Equity		Total Equity
			Legal Reserve	Special Reserve	Special Reserve			Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2018	\$ 1,970,740	\$ 6,660,302	\$ 2,842,806	\$ 25,965	\$ 14,984,938	\$ (67,147)	\$ (316,201)		\$ 26,101,603	
Appropriation of the 2017 earnings	-	-	576,097	-	(576,097)	-	-	-	-	
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-	
Special reserve	-	-	(25,965)	(25,965)	25,965	-	-	-	-	
Cash dividends - NTS\$ 7 per share	-	-	-	(3,350,258)	(3,350,258)	-	-	-	(3,350,258)	
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,148	-	-	-	-	-	-	14,148	
Subsidiaries' disposal of the investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(21,785)	-	-	21,785	-	
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(150,848)	-	-	150,848	-	
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	-	4,318,119	
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,530)	(761)	-	(1,6945)	(171,722)	
BALANCE AT DECEMBER 31, 2018	1,970,740	6,674,650	3,418,903	-	15,228,504	(67,908)	(313,019)		26,911,870	
Appropriation of the 2018 earnings	-	-	431,812	-	(431,812)	-	-	-	-	
Legal reserve	-	-	431,812	-	(431,812)	-	-	-	-	
Special reserve	-	-	380,927	380,927	(380,927)	-	-	-	-	
Cash dividends - NTS\$ 13 per share	-	-	-	-	(2,561,962)	-	-	-	(2,561,962)	
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	47,085	-	-	-	-	-	-	47,085	
Changes in percentages of ownership interests in subsidiaries	-	2,369	-	-	-	-	-	-	2,369	
Subsidiaries' disposal of the investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	14,689	-	-	(14,689)	-	
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	1,134	-	-	(1,134)	-	
Net profit for the year ended December 31, 2019	-	-	-	-	4,543,489	-	-	-	4,543,489	
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	(11,156)	(44,591)	-	(265,216)	(219,469)	
BALANCE AT DECEMBER 31, 2019	\$ 1,970,740	\$ 6,724,104	\$ 3,850,715	\$ 380,927	\$ 16,411,959	\$ (112,499)	\$ (63,626)		\$ 29,162,320	

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche auditors' report dated March 16, 2020)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,340,446	\$ 5,000,353
Adjustments for:		
Depreciation	276,217	208,353
Amortization	157,195	198,436
Expected credit losses reversed on trade receivables	(43,384)	(39,098)
Financial costs	2,006	5,070
Interest income	(52,615)	(49,565)
Dividend income	(77,813)	(41,698)
Share of losses of subsidiaries and associates	106,453	24,194
Gains on disposal of property, plant and equipment	(14,429)	(1,406)
(Reversal) write-down of inventories	(63,700)	92,379
Unrealized (loss) gain on transactions with subsidiaries	(11,288)	19,550
Net loss (gain) on foreign currency exchange	83,862	(69,951)
Recognition of refund liabilities	363,490	166,648
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	(149,990)	11,605
Notes and accounts receivable	(700,786)	431,181
Other receivables	(157,014)	14,114
Inventories	(3,888,961)	(397,448)
Prepayments	(254,327)	(36,962)
Other current assets	6,054	(2,032)
Contract liabilities	96,349	34,266
Notes and accounts payable	(1,126,222)	1,165,893
Other payables	772,583	44,474
Other current liabilities	(111,779)	(318,759)
Net defined benefit liabilities	673	4,228
Cash generated from operations	553,020	6,463,825
Interest paid	(2,006)	(5,070)
Income tax paid	(724,686)	(1,246,975)
Net cash (used in) generated from operating activities	<u>(173,672)</u>	<u>5,211,780</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	-	(53,712)

Proceeds from sale of financial assets at fair value through other comprehensive income	8,674	25,437
Purchase of financial assets at amortized cost	-	(10,027)
Proceeds from sale of financial assets at amortized cost	10,193	-
Purchase of financial assets at fair value through profit or loss	(138,733)	(3,021,042)
Proceeds from sale of financial assets at fair value through profit or loss	77,763	1,498,384
Purchase of investments accounted for using the equity method	(1,012,895)	(229,857)
Payment for property, plant and equipment	(531,390)	(374,975)

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Proceeds from disposal of property, plant and equipment	\$ 14,429	\$ 1,585
Increase in refundable deposits	(1,658)	(1,199)
Payment for intangible assets	(275,153)	(135,709)
Interest received	53,242	49,114
Dividends received from associates	-	233,310
Dividends received from others	77,813	41,698
Proceeds from capital reduction of financial assets at fair value through profit or loss	<u>8,730</u>	<u>69,855</u>
Net cash used in investing activities	<u>(1,708,985)</u>	<u>(1,907,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	(10)	(130)
Repayment of the principal portion of lease liabilities	(10,794)	-
Dividends paid	<u>(2,561,962)</u>	<u>(3,350,258)</u>
Net cash used in financing activities	<u>(2,572,766)</u>	<u>(3,350,388)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(46,335)</u>	<u>69,482</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,501,758)	23,736
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>12,778,312</u>	<u>12,754,576</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 8,276,554</u>	<u>\$ 12,778,312</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated March 16, 2020)

(Concluded)

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

KHEIN SENG PUA
Chairman

March 16, 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in 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 Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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 for the year ended December 31, 2019. 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.

The key audit matter of the Group's consolidated financial statements for the year ended December 31, 2019 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes that there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Group's customers are numerous and diverse, and the net sales of the Group for the year ended December 31, 2019 amounted to NT\$44,336,703 thousand. Therefore, there is a high possibility of abnormal sales from transactions with customers and validity of such transactions may have a significant effect on the consolidated financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

Our main audit procedures performed in response to this matter, included the following:

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.
2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm the validity of sales transaction.
3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. Where such situations existed, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm any instances of repeated purchases and sales.

Emphasis of Matter

As stated in Note 32 to the accompanying consolidated financial statements, the Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office ("District Prosecutorial Office") on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the "Case"). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office ("High Prosecutors Office") for reconsideration. On November 18, 2019, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center ("Investors Protection Center") had filed two civil actions, respectively, as follows: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation's board ("Removal Action"); (2) the second civil action was to claim compensation damage against the Corporation, its board of

directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation had already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. As such, our audit opinion is not modified in respect of this matter.

Other Matter

We have also audited the parent company only financial statements of Phison Electronics Corp. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion with emphasis of matter paragraph.

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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (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 supervisors, 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 auditing standards generally accepted in 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain 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 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 statements 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 for the year ended December 31, 2019 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 Hsin-Wei Tai and Li-Wen Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2020

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 10,205,257	27	\$ 14,176,396	39
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 26)	3,440,905	9	3,077,540	8
Financial assets at amortized cost (Notes 9 and 28)	56,273	-	67,217	-
Notes and accounts receivable				
Non-related parties (Note 10)	5,396,821	14	4,899,709	14
Related parties (Notes 10 and 27)	537,149	1	344,249	1
Other receivables (Note 10)	427,082	1	273,062	1
Current tax assets (Note 21)	45,499	-	23,448	-
Inventories (Note 11)	11,532,724	30	7,576,721	21
Prepayments	282,396	1	63,194	-
Other current assets	35,733	-	104,271	-
Total current assets	<u>31,959,839</u>	<u>83</u>	<u>30,605,807</u>	<u>84</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) (Notes 7 and 26)	459,306	1	427,789	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Notes 8 and 26)	636,432	2	450,397	1
Investments accounted for using the equity method (Note 13)	1,644,159	4	1,494,049	4
Property, plant and equipment (Note 14)	3,282,950	8	2,990,231	8
Right-of-use assets (Note 15)	32,840	-	-	-
Intangible assets (Note 16)	268,026	1	152,550	1
Deferred tax assets (Note 21)	346,732	1	310,563	1
Guarantee deposits paid	6,496	-	7,154	-
Total non-current assets	<u>6,676,941</u>	<u>17</u>	<u>5,832,733</u>	<u>16</u>
TOTAL	<u>\$ 38,636,780</u>	<u>100</u>	<u>\$ 36,438,540</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities	\$ 130,615	-	\$ 34,270	-
Notes and accounts payable				
Non-related parties	2,258,562	6	1,949,403	5
Related parties (Note 27)	1,384,097	4	2,856,144	8
Other payables (Note 17)	4,398,129	11	3,716,898	10
Tax payable (Note 21)	602,714	2	523,854	2
Lease liabilities (Note 15)	12,520	-	-	-
Other current liabilities (Note 18)	519,744	1	339,062	1
Total current liabilities	<u>9,306,381</u>	<u>24</u>	<u>9,419,631</u>	<u>26</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 21)	21,930	-	-	-
Lease liabilities (Note 15)	20,702	-	-	-
Long-term deferred revenue	4,060	-	14,068	-
Net defined benefit liabilities (Note 19)	94,945	-	92,827	-
Guarantee deposits received	134	-	144	-
Total non-current liabilities	<u>141,771</u>	<u>-</u>	<u>107,039</u>	<u>-</u>
Total liabilities	<u>9,448,152</u>	<u>24</u>	<u>9,526,670</u>	<u>26</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 20 and 24)				
Share capital				
Common shares	1,970,740	5	1,970,740	6
Capital surplus	6,724,104	17	6,674,650	18
Retained earnings				
Legal reserve	3,850,715	10	3,418,903	9
Special reserve	380,927	1	-	-
Unappropriated earnings	16,411,959	43	15,228,504	42
Total retained earnings	<u>20,643,601</u>	<u>54</u>	<u>18,647,407</u>	<u>51</u>
Other equity	(176,125)	-	(380,927)	(1)
Total equity attributable to owners of the Corporation	<u>29,162,320</u>	<u>76</u>	<u>26,911,870</u>	<u>74</u>
NON-CONTROLLING INTERESTS	<u>26,308</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity	<u>29,188,628</u>	<u>76</u>	<u>26,911,870</u>	<u>74</u>
TOTAL	<u>\$ 38,636,780</u>	<u>100</u>	<u>\$ 36,438,540</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche auditors' report dated March 16, 2020)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Note 27)				
Gross sales	\$ 44,973,895	101	\$ 40,976,395	101
Less: Sales returns and allowances	<u>637,192</u>	<u>2</u>	<u>361,131</u>	<u>1</u>
Net sales	44,336,703	99	40,615,264	100
Other operating revenue	<u>356,738</u>	<u>1</u>	<u>172,841</u>	<u>-</u>
Total operating revenue	44,693,441	100	40,788,105	100
OPERATING COSTS (Notes 11, 22 and 27)	<u>33,544,166</u>	<u>75</u>	<u>31,656,151</u>	<u>78</u>
GROSS PROFIT	<u>11,149,275</u>	<u>25</u>	<u>9,131,954</u>	<u>22</u>
OPERATING EXPENSES (Note 22)				
Marketing	601,933	1	513,837	1
General and administrative	676,893	1	441,225	1
Research and development	4,714,400	11	3,495,417	9
Reversal of expected credit losses (Note 10)	<u>(53,964)</u>	<u>-</u>	<u>(28,309)</u>	<u>-</u>
Total operating expenses	<u>5,939,262</u>	<u>13</u>	<u>4,422,170</u>	<u>11</u>
OPERATING INCOME	<u>5,210,013</u>	<u>12</u>	<u>4,709,784</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES				
Other gains and losses (Note 22)	27,872	-	175,624	-
Share of losses of associates (Note 13)	(243,815)	(1)	(174,654)	-
Other income (Note 22)	358,870	1	299,497	1
Financial costs (Note 22)	<u>(2,006)</u>	<u>-</u>	<u>(5,070)</u>	<u>-</u>
Total non-operating income and expenses	<u>140,921</u>	<u>-</u>	<u>295,397</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	5,350,934	12	5,005,181	12
INCOME TAX EXPENSE (Note 21)	<u>805,097</u>	<u>2</u>	<u>687,062</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>4,545,837</u>	<u>10</u>	<u>4,318,119</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Remeasurement of defined benefit plan	\$ (1,445)	-	\$ (3,701)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	265,956	1	(169,451)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 21)	289	-	2,171	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(59,969)	-	(3,975)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 21)	<u>13,669</u>	<u>-</u>	<u>3,214</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>218,500</u>	<u>1</u>	<u>(171,742)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,764,337</u>	<u>11</u>	<u>\$ 4,146,377</u>	<u>10</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Corporation	\$ 4,543,489	10	\$ 4,318,119	11
Non-controlling interests	<u>2,348</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,545,837</u>	<u>10</u>	<u>\$ 4,318,119</u>	<u>11</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Corporation	\$ 4,762,958	11	\$ 4,146,377	10
Non-controlling interests	<u>1,379</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,764,337</u>	<u>11</u>	<u>\$ 4,146,377</u>	<u>10</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 23)				
Basic	<u>\$ 23.05</u>		<u>\$ 21.91</u>	
Diluted	<u>\$ 22.78</u>		<u>\$ 21.60</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche auditors' report dated March 16, 2020)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Corporation							Total Equity	
	Common Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Other Equity Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		Non-controlling Interests
			Legal Reserve	Special Reserve					
BALANCE AT JANUARY 1, 2018	\$ 1,970,740	\$ 6,660,502	\$ 2,842,806	\$ 25,965	\$ 14,984,938	\$ (67,147)	\$ (316,201)	\$ 26,101,603	\$ 26,101,603
Appropriation of the 2017 earnings	-	-	576,097	-	(576,097)	-	-	-	-
Legal reserve	-	-	576,097	-	25,965	-	-	-	-
Reversal of special reserve	-	-	(25,965)	-	(3,350,258)	-	-	-	-
Cash dividends - NTS17 per share	-	-	-	-	-	-	-	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,148	-	-	-	-	-	-	14,148
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(172,633)	-	172,633	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	4,318,119	-
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(15,200)	(761)	(169,451)	-	(171,742)
BALANCE AT DECEMBER 31, 2018	1,970,740	6,674,650	3,418,903	-	15,228,304	(67,908)	(313,019)	26,911,870	26,911,870
Appropriation of the 2018 earnings	-	-	431,812	-	(431,812)	-	-	-	-
Legal reserve	-	-	431,812	-	(380,927)	-	-	-	-
Special reserve	-	-	-	380,927	-	-	-	-	-
Cash dividends - NTS13 per share	-	-	-	-	(2,561,962)	-	-	-	(2,561,962)
Changes in non-controlling interests	-	-	-	-	-	-	-	27,298	27,298
Changes in percentage of ownership interests in subsidiaries	-	2,369	-	-	-	-	-	(2,369)	-
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	47,085	-	-	-	-	-	47,085	-
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	15,823	-	(15,823)	-	-
Net profit for the year ended December 31, 2019	-	-	-	-	4,543,489	-	-	4,543,489	2,348
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	(11,156)	(44,591)	265,216	(969)	2,348
BALANCE AT DECEMBER 31, 2019	\$ 1,970,740	\$ 6,724,104	\$ 3,850,715	\$ 380,927	\$ 16,411,559	\$ (112,498)	\$ (65,646)	\$ 29,162,320	\$ 29,188,658

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche auditors' report dated March 16, 2020)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,350,934	\$ 5,005,181
Adjustments for:		
Depreciation	293,221	223,830
Amortization	159,941	201,357
Expected credit losses reversed on trade receivables	(53,964)	(28,309)
Financial costs	2,006	5,070
Interest income	(58,473)	(54,189)
Dividend income	(81,192)	(41,698)
Share of losses of associates	243,815	174,654
Gains on disposal of property, plant and equipment	(14,907)	(1,413)
Loss (gain) on disposal of associates	2,960	(392)
(Reversal) write-down of inventories	(63,347)	94,910
Net loss (gain) on foreign currency exchange	66,000	(91,066)
Recognition of refund liabilities	363,490	166,648
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	(154,451)	12,148
Notes and accounts receivable	(718,100)	501,434
Other receivables	(158,228)	16,046
Inventories	(3,892,546)	(479,247)
Prepayments	(255,137)	(36,059)
Other current assets	68,538	(39,081)
Contract liabilities	96,345	34,270
Notes and accounts payable	(1,129,555)	1,172,875
Other payables	693,799	(16,658)
Deferred revenue	(10,008)	(5,642)
Other current liabilities	(187,786)	(333,586)
Net defined benefit liabilities	673	7,930
Cash generated from operations	564,028	6,489,013
Interest paid	(2,006)	(5,070)
Income tax paid	(762,238)	(1,270,759)
Net cash (used in) generated from operating activities	(200,216)	5,213,184
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(33,160)	(134,207)
Proceeds from sale of financial assets at fair value through other comprehensive income	112,653	25,586
Proceeds from sale of financial assets at amortized cost	10,944	13,317
Purchase of financial assets at fair value through profit or loss	(348,962)	(3,032,790)

Proceeds from sale of financial assets at fair value through profit or loss	99,958	1,501,263
Acquisition of associates	(359,878)	(178,880)
Net cash inflow on disposal of associates	-	398

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Payment for property, plant and equipment	\$ (534,637)	\$ (370,970)
Proceeds from disposal of property, plant and equipment	15,008	1,628
Decrease (increase) in refundable deposits	632	(3,374)
Payment for intangible assets	(275,444)	(135,845)
Interest received	59,240	53,967
Dividends received from others	81,192	41,698
Dividends received from associates	-	233,310
Proceeds from capital reduction of financial assets at fair value through profit or loss	<u>8,730</u>	<u>69,855</u>
Net cash used in investing activities	<u>(1,163,724)</u>	<u>(1,915,044)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	(10)	(130)
Repayment of the principal portion of lease liabilities	(10,794)	-
Dividends paid	(2,561,962)	(3,350,258)
Increase in non-controlling interests	<u>27,298</u>	<u>-</u>
Net cash used in financing activities	<u>(2,545,468)</u>	<u>(3,350,388)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(61,731)</u>	<u>86,255</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,971,139)	34,007
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>14,176,396</u>	<u>14,142,389</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 10,205,257</u>	<u>\$ 14,176,396</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche auditors' report dated March 16, 2020)

(Concluded)

**Phison Electronics Corporation
List of Candidates for Directors**

Name (Gender)	Education	Major Past Positions	Current Positions	The representative name of the legal entity or government office
Khein Seng Pua (M)	Master of Institute of Electrical and Control Engineering, National Chiao Tung University	Founder of Phison Electronics Corporation Chairman of Phison Electronics Corporation	Chairman of Phison Electronics Corporation	NA
Chee Kong Aw Yong (M)	Master of Institute of Electrical and Control Engineering, National Chiao Tung University	Founder of Phison Electronics Corporation President of Phison Electronics Corporation	President of Phison Electronics Corporation	NA
Tzung Homg Kuang (M)	Master of Business Administration, Greenwich University	Kogen Singapore Pte Ltd Vice President of Phison Electronics Corporation	Vice President of Phison Electronics Corporation	NA
Chih Jen Hsu (M)	Department of Computer Science, Chung Yuan Christian University	Assistant Manager of Winbond Electronics Corporation Founder of Phison Electronics Corporation Vice Technical President of Phison Electronics Corporation	Vice Technical President of Phison Electronics Corporation	Cheng He Investment Co., Ltd

Name (Gender)	Education	Major Past Positions	Current Positions	The representative name of the legal entity or government office
Jiunn Yeong Yang (M)	Ph.D. of Institute of Electrical and Control Engineering, National Chiao Tung University	Founder of Phison Electronics Corporation Postdoc of Institute of Electrical and Control Engineering, National Chiao Tung University	NA	NA
Hiroto Nakai (M)	Master of Engineering, Tohoku University in Japan	Toshiba Corporation Storage & Electronic Devices Solutions Company, Memory Division, Senior Fellow	KIOXIA Corporation, Senior Expert and Assistant to Director Institute Memory Technology Research & Development	Trusted Investment Account of KIOXIA Corporation by First Bank

(Continued)

Phison Electronics Corporation
List of Candidates for Independent Directors

Name (Gender)	Education	Major Past Positions	Current Positions	The representative name of the legal entity or government office	Has it served for three consecutive independent directors
Chen Wei Wang (M)	Department of Electronics Engineering, National Chiao Tung University	CEO of Quanta Computer Inc. President of Quanta Computer Inc.	Independent director of Simplo Technology Co. Ltd. Independent director of Innolux Corporation Independent director of Casetek Holdings Limited	NA	None
Wen Chiu Chung (F)	Master of Accounting, Chung Yuan Christian University	Auditor of Hwei Ming Auditor of Grand Thornton Accountant of Grand Thornton	Director of Xu Yuan Packaging Technology Co., Ltd.	NA	None
Yu Lun Huang (F)	Ph.D., Department of Computer Science and Information Engineering, National Chiao Tung University	Associate Vice President for Academic Affairs Director, Center for Teaching and Learning Development Director, Center for Continuing Education	Associate Vice President for Academic Affairs Director, Center for Teaching and Learning Development Director, Center for Continuing Education and	NA	None

Name	Education	Major Past Positions	Current Positions	The representative name of the legal entity or government office	Has it served for three consecutive independent directors
		and Training Associate Professor, Department of Electrical and Computer Engineering Secretary-in-General, Taiwan Open Course and Education Consortium	Training Associate Professor, Department of Electrical and Computer Engineering Secretary-in-General, Taiwan Open Course and Education Consortium		

Comparison Table for Amendments to Articles of Association of the Company

Item	Current Articles		Amended Articles		Amendment Explanation
	Content	Item	Content		
Article 3	The Company set up its headquarters in HsinChu County. If necessary, it may set up branch offices domestically or abroad with a resolution by the board of directors.	Article 3	The Company set up its headquarters in HsinChu County, <u>and if necessary</u> , it may set up branch offices domestically or abroad with a resolution by the board of directors.		Discretionary text.
Article 5	The total capital of the company is rated at NT\$ 2.8 billion , divided into 280 million shares, and the amount per share is NT\$10, of which no shares are issued and the board of directors is authorized to issue shares on a separate basis. In the first total capital, NT\$ 160 million was reserved, and the shares were divided into 16 million shares at par value of NT\$10 per share, which is for the issuance of employees' share subscription warrants in order to exercise the subscription right. It shall be issued separately based on the resolution of the board of directors.	Article 5	The total capital of the company is rated at NT\$ <u>3.0 billion</u> , divided into <u>300 million</u> shares, and the amount per share is NT\$10, of which no shares are issued and the board of directors is authorized to issue shares on a separate basis. In the first total capital, NT\$ <u>290 million</u> was reserved, and the shares were divided into <u>29 million</u> shares at par value of NT\$10 per share, which is for the issuance of employees' share subscription warrants in order to exercise the subscription right. It shall be issued separately based on the resolution of the board of directors.		Amend according to the Company to the Company operating requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 5-1	The company issues employee stock warrants, the exercise price can be lower than the closing price of the company stocks as of the issuing date. which is required to obtain the consent of at least two-thirds of the voting rights represented at a shareholders meeting attended by shareholders representing a majority of the total issued shares and allowed to register multiple issues over a period of 1 year from the date of the shareholders resolution.	Article 5-1	The company issues employee stock warrants, the exercise price can be lower than the closing price of the company stocks as of the issuing date. which is required to obtain the consent of at least two-thirds of the voting rights represented <u>at a shareholders meeting</u> attended by shareholders representing a majority of the total issued shares and allowed to register multiple issues over a period of 1 year from the date of the shareholders resolution.	Discretionary text.
Article 5-2	The Company transfer to employees at less than the average actual share repurchase price, it must have obtained the consent of at least two-thirds of the voting rights present at the most recent shareholders meeting attended by shareholders representing a majority of total issued shares, and must have listed the following matters in the notice of reasons for that shareholders meeting: it may not raise the matter by means of an	Article 5-2	<u>If the Company plans to repurchase its own shares and transfer them</u> to employees at less than the average actual share repurchase price, it must have obtained the consent of at least two-thirds of the voting rights present at the most recent shareholders meeting attended by shareholders representing a majority of total issued shares, and must have listed the following matters in the notice of reasons for that shareholders meeting: it may	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>extraordinary motion:</p> <ol style="list-style-type: none"> 1. The exercise price, the valuation percentage, the bases of calculations, and the reasonableness thereof. 2. The number of shares to be transferred, the purpose, and the reasonableness thereof. 3. Qualification requirements for employees subscribing to shares, and the number of shares they are allowed to subscribe for. 4. Factors affecting shareholders' equity: <ol style="list-style-type: none"> A. The expensable amount, and dilution of the company's earnings per share. B. Explain what financial burden will be imposed on the company by transferring shares to employees at less than the average actual share repurchase price. 		<p>not raise the matter by means of an extraordinary motion:</p> <ol style="list-style-type: none"> 1. The exercise price, the valuation percentage, the bases of calculations, and the reasonableness thereof. 2. The number of shares to be transferred, the purpose, and the reasonableness thereof. 3. Qualification requirements for employees subscribing to shares, and the number of shares they are allowed to subscribe for. 4. Factors affecting shareholders' equity: <ol style="list-style-type: none"> A. The expensable amount, and dilution of the company's earnings per share. B. Explain what financial burden will be imposed on the company by transferring shares to employees at less than the average actual share repurchase price. 	
Article 5-3	If the company repurchased treasury share, it		(Delete)	This article is

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>could be transferred to the employees of the company (or its parents or subsidiaries) who are qualified certain requirements.—</p> <p>If the company issued share subscription warrant, it could be participated by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</p> <p>If the company issued restricted stock could be participated by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</p> <p>If the company issued new shares, the reservation for employee subscription could be subscribed by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</p> <p>The term "certain specific requirements" and "allocation" as used in this article, authorize</p>			<p>moved to Article 19.</p>

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 7	<p>the board of directors:</p> <p>The Company's stock are all registered share certificates and shall be signed or stamped by the directors who is authorized, recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, the Company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue and may be exempted from printing any share certificate for the shares issued. The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.</p>	Article 7	<p>The Company's stock are all registered share certificates and shall be signed or stamped by the directors who is authorized, recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.</p>	Amend according to the Company operating requirements.
Article 12 +	The Company shall inform each Director and Supervisor seven days prior to a Board		(Delete)	This article is moved to Article

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	meeting, and in case of emergency, the Company may call the board of directors to a meeting at any time. The Company's board of directors was convened in writing, e-mail, or fax method.		15.	
Chapter IV	Directors and Supervisors	Chapter IV	<u>Directors and Board of directors</u>	Amended in accordance with the requirement of establishing an audit committee to replace the supervisors.
Article 13	The Company appoints seven to eleven directors and three supervisors under candidates' nomination system. The term of directors and supervisor shall be three years. Directors and supervisors are elected from the list of candidates and may be eligible for re-election. The total sum of all registered shares	Article 13	The Company appoints seven to eleven directors under candidates' nomination system. The term of directors shall be three years. Directors are elected from the list of candidates and may be eligible for re-election. The total sum of all registered shares certificates held by all directors shall not be	Amended in accordance with the requirement of establishing an audit committee to replace the supervisors.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	certificates held by all directors and supervisors shall not be less than that as regulated in "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" from the regulatory authority.		less than that as regulated in "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" from the regulatory authority.	
Article 13-2	The Company's board of directors decides whether to set up an audit committee. If the audit committee is set up upon resolution, this Articles of Association regarding the supervisor shall not be applied during the term of the audit committee. The composition, the scope of duties and power, rules of procedure, and other compliance matters of the audit committee of the company shall be in accordance with the relevant regulations of the competent authority.	Article 13-2	The <u>Company</u> has established the <u>audit committee</u> . <u>Its</u> composition, scope of duties and power, rules of procedure, and other compliance matters shall be in accordance with the relevant regulations of the competent authority.	Amended in accordance with the requirement of establishing an audit committee to replace the supervisors.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 15	In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act. The board of directors shall be convened by the Chairperson of the board of directors. The conduct of the board of directors shall be conducted in accordance with the "Rules of Procedure for Meetings of Board of Directors" of the company. Directors should attend the board of directors in person. If the board of directors takes the video conference, the director's participation in the video conference is regarded as personal in person. In case a director cannot attend a Board meeting in person, he/she may appoint another Director to attend in his/her behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be	Article 15	In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act. The board of directors shall be convened by the Chairperson of the board of directors. The conduct of the board of directors shall be conducted in accordance with the "Rules of Procedure for Meetings of Board of Directors" of the company. Directors should attend the board of directors in person. If the board of directors takes the video conference, the director's participation in the video conference is regarded as personal in person. In case a director cannot attend a Board meeting in person, he/she may appoint another Director to attend in his/her behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be	This article is moved from Article 12-1.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	discussed at the meeting. A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other Director only.		discussed at the meeting. A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other Director only. <u>The Company shall inform each Director seven days prior to a Board meeting, and in case of emergency, the Company may call the board of directors to a meeting at any time.</u> <u>The Company's board of directors was convened in writing, e-mail, or fax method.</u>	
Article 16	Compensations for the Chairperson, and directors, and supervisors of the Company shall be determined by the board of directors according to the involvement and contribution of the Chairperson each director, and supervisor with reference to the industry standards. The Company shall purchase liability insurance for its Directors and Supervisors for carrying out the scope of their	Article 16	Compensations for the Chairperson and directors of the Company shall be determined by the board of directors according to the involvement and contribution of the Chairperson <u>and</u> each director, with reference to the industry standards. The Company shall purchase liability insurance for its Directors for carrying out the scope of their responsibilities during the terms of office for said Directors.	Amended in accordance with the requirement of establishing an audit committee to replace the supervisors.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	responsibilities during the terms of office for said Directors and Supervisors .			
Article 18	At the close of each fiscal year of the Company, the board of directors shall prepare, 1) business report, 2) financial statement and 3) the surplus earning distribution or loss off-setting proposal, etc., and shall forward the same to supervisors for their auditing not later than the 30th day prior to the meeting date of a general meeting of shareholders and subsequently submit them to the meeting of shareholders for its ratification.	Article 18	At the close of each fiscal year of the Company, the board of directors shall prepare, 1) business report, 2) financial statement and 3) the surplus earning distribution or loss off-setting proposal, etc. subsequently submit them to the meeting of shareholders for its ratification.	Amended in accordance with the requirement of establishing an audit committee to replace the supervisors.
Article 19	If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations, but the Company shall reserve a portion of profit to make up for accumulated losses, if any. Employee's remuneration may be distributed	Article 19	If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors' compensations, but the Company shall reserve a portion of profit to make up for accumulated losses, if any. Employee's remuneration may be distributed	Amended in accordance with the requirement of establishing an audit committee to replace the supervisors.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>in shares or cash, and the counterparty to whom shares or cash are distributed to as employee's remuneration may include the employees of its subordinate companies that meet certain criteria. Compensation of directors and supervisors shall be paid in cash.</p> <p>The term "profit" as mentioned in the first paragraph refers to pre-tax profits before deducting the distributed employees' and directors', and supervisors' remuneration.</p> <p>Employee and director, and supervisor remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.</p>		<p>in shares or cash, and the <u>compensation</u> of directors shall be paid in cash.</p> <p>The term "profit" as mentioned in the first paragraph refers to pre-tax profits before deducting the distributed employees and directors' remuneration.</p> <p>Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.</p> <p><u>Employee treasury stocks, employee stock options, new shares purchased by employees, employee restricted stock awards, and employee compensation shall be provided by the Company to controlling or subordinate employees who meet certain conditions. The board of directors is authorized to determine</u></p>	<p>This article is amended and moved from Article 5-3.</p>

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 19-1	<p>If the company's annual final accounts have net profit after tax for this period, the accumulated losses should be made up first, 10% of which is appropriated as legal reserve; however, the occasion when the legal reserve has reached the total paid-in capital of the company is excluded. And according to law or the competent authority to appropriate or reverse special reserves. The remaining surplus, together with unappropriated retained earnings would be reversed appropriately by the board of directors based on actual operating earnings, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.</p> <p>The company's dividend distribution policy</p>	Article 19-1	<p><u>its conditions and allocation method.</u></p> <p>If the company's annual final accounts have surplus for this period, <u>the taxes should be paid first to make up accumulated losses,</u> 10% of which is appropriated as legal reserve; however, the occasion when the legal reserve has reached the total paid-in capital of the company is excluded. And according to law or the competent authority to appropriate or reverse special reserves. The remaining surplus, together with unappropriated retained earnings would be reversed appropriately by the board of directors based on actual operating conditions, and then a proposal for undistributed surplus <u>of the initial period</u> will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.</p>	Amend according to the Company requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	shall consider the company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of the shareholders.		The company's dividend distribution policy shall consider the company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of the shareholders.	
Article 21	The Articles were established on October 24, 2000. The first amendment was made on November 21, 2000.	Article 21	The Articles were established on October 24, 2000. The first amendment was made on November 21, 2000.	Add the number of amendments and date of amendment.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	The second amendment was made on September 5, 2001.		The second amendment was made on September 5, 2001.	
	The third amendment was made on February 15, 2002.		The third amendment was made on February 15, 2002.	
	The fourth amendment was made on April 9, 2002.		The fourth amendment was made on April 9, 2002.	
	The fifth amendment was made on June 25, 2002.		The fifth amendment was made on June 25, 2002.	
	The sixth amendment was made on March 26, 2003.		The sixth amendment was made on March 26, 2003.	
	The seventh amendment was made on November 12, 2003.		The seventh amendment was made on November 12, 2003.	
	The eighth amendment was made on June 15, 2004.		The eighth amendment was made on June 15, 2004.	
	The ninth amendment was made on March 17, 2005.		The ninth amendment was made on March 17, 2005.	
	The tenth amendment was made on June 16, 2005.		The tenth amendment was made on June 16, 2005.	
	The eleventh amendment was made on June 14, 2006.		The eleventh amendment was made on June 14, 2006.	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	The twelfth amendment was made on November 1, 2006.		The twelfth amendment was made on November 1, 2006.	
	The thirteenth amendment was made on June 13, 2007.		The thirteenth amendment was made on June 13, 2007.	
	The fourteenth amendment was made on June 13, 2008.		The fourteenth amendment was made on June 13, 2008.	
	The fifteenth amendment was made on May 8, 2009.		The fifteenth amendment was made on May 8, 2009.	
	The sixteenth amendment was made on June 15, 2010.		The sixteenth amendment was made on June 15, 2010.	
	The seventeenth amendment was made on June 15, 2011.		The seventeenth amendment was made on June 15, 2011.	
	The eighteenth amendment was made on June 11, 2013.		The eighteenth amendment was made on June 11, 2013.	
	The nineteenth amendment was made on June 17, 2014.		The nineteenth amendment was made on June 17, 2014.	
	The twentieth amendment was made on June 2, 2015.		The twentieth amendment was made on June 2, 2015.	
	The twenty-first amendment was made on June 15, 2016.		The twenty-first amendment was made on June 15, 2016.	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>The twenty-second amendment was made on June 13, 2017.</p> <p>The twenty-thirdly amendment was made on June 12, 2019.</p>		<p>The twenty-second amendment was made on June 13, 2017.</p> <p>The twenty-thirdly amendment was made on June 12, 2019.</p> <p><u>The twenty-fourly amendment was made on June 3, 2020.</u></p>	

Details for Release of the New Directors from Non-Competition Restrictions

Name	Positions of other company
Khein Seng Pua	Epostar Electronics (BVI) Corporation Director
	Kingston Solutions Inc. Director Representative
KIOXIA Corporation	KIOXIA Semiconductor Taiwan Corporation Director
	KIOXIA Taiwan Corporation Director
	MicroTops Design Corporation Director

VIII. Appendices

Appendix 1

Phison Electronics Corporation Rules of Procedure for Shareholders' Meeting

- Article 1: The company's shareholder's meeting shall be conducted in accordance with the Rules. The items which are not regulated in the Rules shall be processed in accordance with the relevant provisions of the Company Act and the Articles of Association of Company.
- Article 2: Attending shareholders or their agents are required to wear an attendance card and to submit attendance cards in lieu of signing in. The number of shares represented by Shareholders attending the meeting shall be calculated in accordance with the number of attendance cards submitted by Shareholders and the number of shares held by shareholders who are permitted to exercise voting rights in electronic form.
- Article 3: Shareholders' meeting shall convene at the Company's registered office or a place convenient to attend and suitable for meeting; the meeting shall be called no earlier than 9 a.m. and no later than 3 p.m.
- Article 4: The Company may appoint its attorneys, certified public accountants, or related persons to attend the shareholders' Meeting.
Staff handling administrative affairs of the Annual General Shareholders' Meeting shall wear identification cards or arm bands.
- Article 5: Entire proceedings of shareholders' meeting shall be recorded on audio or video tape and preserved for at least 1 year.
- Article 6: When a majority of the shareholders present, who represent more than one-half of the total number of voting shares, the meeting chairperson shall call the meeting. If the number of shares represented by the attending shareholders has not yet constituted the quorum at the time scheduled for the general meeting, the meeting chairperson may postpone the time for the meeting. The postponements shall be limited to two times at most, and the meeting shall not be postponed for more than one hour in total. If after two postponements the number of Shares represented by the attending Shareholders has not yet constituted more than one-third (1/3) of all Shares

in issue present in person or by proxy and entitled to vote, a tentative resolution may be passed in accordance with Article of 175 of the Company Act. During the execution of a tentative resolution, if the number of Shares represented by the attending Shareholders has already constituted more than an aggregate of one-half (1/2) of all shares in issue, the meeting chairperson may put the tentative resolutions already passed to the Shareholders' resolution again in accordance with Article 174 of the Company Act Applicable Listing Rules.

Article 7: If a shareholder meeting is convened by the board of directors, the board of directors shall decide the proceedings and the meeting shall be conducted accordingly; no changes may be made except with the resolution of the shareholder meeting.

The preceding paragraph applies to circumstances where the shareholder's meeting is convened by any person, who is outside the board of directors but having the convening right.

Prior to conclusion of the preceding two agenda items (including extraordinary motions), the meeting chairperson may not declare the meeting adjourned without a resolution.

After a meeting closed, shareholders may not elect another meeting chairperson to continue the proceeding of the meeting at the same or a new place, provided that, if the meeting chairperson declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of meetings, a new meeting chairperson may be elected by a resolution to be adopted by a majority of the voting rights represented by the shareholders attending the said meeting to continue the proceeding of the meeting.

Article 7-1: Shareholders holding 1% or more of the total number of outstanding shares of the Company may submit a written proposal to the Company for discussion at a general shareholders' meeting.

Prior to the book closure date before a general shareholders' meeting is held, the Company shall publicly announce that it will receive shareholder proposals, and the location and time period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

If the proposal of a shareholder is approved by the board of directors and that it is not involved in any following circumstances, it shall be listed in the notice of the meeting of the shareholders' general meeting:

1. Where the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at a meeting of shareholders.
2. Where the number of shares of held by shareholders making the said proposal is less than one percent (1%) of the total number of outstanding shares at the time when the share transfer registration is suspended in the general shareholder's meeting.
3. Where the said proposal is submitted on the day beyond the deadline fixed and announced by the Company.
4. The proposals submitted by the proposing shareholders exceed one item, or more than 300 words (including punctuation), or were not submitted in a writing format.

The Company shall, prior to preparing and delivering the shareholders' meeting notice, inform the shareholders who have raised proposals the result of the evaluation. The board of directors shall list the proposals which are not included in the agenda, on the general shareholders' meeting's handbook and explain the reasons for excluding those proposals from the agenda. These reasons are not included in the agenda or in the meeting minutes.

Article 8 When a shareholder meeting is convened by the board of directors, the Chairperson shall preside over the meeting. If the Chairperson is on leave or unable to attend the meeting, the vice chairperson shall chair the meeting. If there is no vice chairperson or the vice chairperson is also on leave or unable to attend, the Chairperson shall designate a managing director to chair the meeting. If there is no managing director, a director shall be designated. If the Chairperson fails to designate a director, directors and the managing director shall elect one person from among them to chair the meeting. When shareholders' meeting is convened by other person who is outside the board of directors but having the convening right, such person shall act as the meeting chairperson at that meeting.

- Article 9: During the meeting, the meeting chairperson may declare a break according to his or her judgment.
- Article 10: No discussion or vote for non-proposals. During the discussion of proposals, the meeting chairperson may announce that the discussion shall be terminated at an appropriate timing and may, if necessary, make an announcement of the suspension of discussion.
- Article 11: When a shareholder attending the general meeting wishes to speak, a speech note should be filled out with summary of the speech, the shareholder's account number (or the number of attendance card), name of the shareholder and the current shareholding. The sequence of speeches shall be determined by the meeting chairperson.
- Article 12: Shareholders' speeches, each person (including natural persons and legal persons) shall be limited to five minutes. However, with the permission of the meeting chairperson, it may be extended once. In the same proposal, each person (including natural persons and legal persons) shall not speak more than twice. When the legal person is appointed to attend as proxy, it may designate only one person to represent the shareholder in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders' meeting, only one of the representatives so appointed may speak on the same proposal.
- Article 13: After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.
- Article 14: When the speech of any shareholder is too long or outside the scope of the agenda item, the meeting chairperson may stop their speech. The meeting chairperson may command shareholders who disobey the meeting chairperson's correction and impede the process of the meeting to leave the meeting venue.
- Article 15: As the meeting chairperson announced that the discussed proposal shall be terminated or suspended, the chairman may submit them for a vote.
- Article 16: Except as otherwise provided in the Company Act and in the Company's Articles of Association, the resolution of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders. A proposal is deemed to have passed when no

attending shareholders gave the dissents after being inquired by the meeting chairperson and the effect thereof is the same as a vote.

Article 17: Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the meeting chairperson, provided that all monitoring personnel shall be shareholders of the Company. The results of the voting shall be announced on-site at the meeting, and the records shall be made.

Article 18: In the event amendments or substitutions are provided for in the same proposal, the meeting chairperson may decide the order of the vote including the original proposal. When any one among of them is passed, the other proposals are simultaneously rejected and no further voting shall be required.

When the written proposal of a shareholder, pursuant to the Article 172-1 of the Company Act, is included in the agenda of the general shareholders' meeting, and if the type of the proposal is similar to the one already proposed by the board of directors, these proposal submissions shall be combined and processed in accordance with the provisions of the preceding paragraph.

The order of the discussion of each proposal brought up in extraordinary motion and the order of the vote shall be decided by the meeting chairperson.

Article 19: The meeting chairperson may command inspector (or security personnel) to maintain order of meeting place. The inspector (or security officer) shall wear an arm-band with the word "inspector".

Article 20: During the meeting, in the event of an air alarm, the meeting shall be suspended and the evacuation will be conducted. One hour after the alarm is lifted, the meeting will resume.

Article 21: These Rules, and any amendments hereto, shall be implemented after adoption by shareholders' meetings.

Article 22: This rule is made on March 26, 2003.

The first amendment was made on June 14, 2006.

The second amendment was made on June 13, 2017.

Phison Electronics Corporation
Procedures of Election of Directors and Supervisors

- Article 1: The elections of directors and supervisors shall be conducted in accordance with these Procedures.
- Article 2: The board of directors shall prepare separate ballots for directors and supervisors in numbers corresponding to the directors or supervisors to be elected. The number of voting rights associated with each ballot shall be specified on the ballots, which shall then be distributed to the attending shareholders at the general meeting. The shareholder account numbers and the attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders.
- Article 3: The cumulative voting method shall be used for election of the directors and supervisors at this Corporation. Each share will have voting rights in number equal to the directors or supervisors to be elected, and may be cast for a single candidate or split among multiple candidates.
- Article 3-1: Elections of both directors (including independent directors) and supervisors at this Corporation shall be conducted in accordance with the candidate nomination system and procedures set out in Article 192-1 and 216-1 of the Company Act.
- If the Company sets up the Audit Committee in accordance with Article 13-2 of the Articles of the Company, then the provisions of the Procedures concerning the supervisors shall cease to apply.
- Article 4: The specified number of directors and supervisors, according to the ballot statistics results, with the voting rights separately calculated for independent and non-independent directors or supervisor. Those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes. When two or more persons receive the same number of votes, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any person not in attendance.

If a shareholder is elected as a director or a supervisor at the same time, he shall, at his discretion, act as a director or a supervisor, and his / her vacancy shall be filled by the candidate with highest numbers of votes.

Article 5: Before the election begins, the chairman shall appoint a number of persons with shareholder status to perform the respective duties of vote monitoring and counting personnel. However the vote monitoring personnel shall have the shareholder status.

Article 6: The ballot boxes shall be prepared by the board of directors and publicly checked by the vote monitoring personnel before voting commences.

Article 7: If a candidate is a shareholder, a voter must enter the candidate's account name and shareholder account number in the "candidate" column of the ballot; for a non-shareholder, the voter shall enter the candidate's full name and identity card number. However, when the candidate is a governmental organization or juristic-person shareholder, the name of the governmental organization or juristic-person shareholder shall be entered in the column for the candidate's account name in the ballot paper, or both the name of the governmental organization or juristic-person shareholder and the name of its representative may be entered. When there are multiple representatives, the names of each respective representative shall be entered.

Article 8: A ballot is invalid under any of the following circumstances:

1. The ballot was not prepared by using these procedures.
2. A blank ballot is placed in the ballot box.
3. The writing is unclear and indecipherable or has been altered.
4. The candidate whose name is entered in the ballot is a shareholder, but the candidate's account name and shareholder account number do not conform with those given in the shareholder register, or the candidate whose name is entered in the ballot is a non-shareholder, and a cross-check shows that the candidate's name and identity card number do not match.
5. Other words or marks are entered in addition to the candidate's account (name) or shareholder account number (or identity card number) and the number of voting rights allotted.
6. No candidate's account (name) or shareholder account number (or identity card number) is entered.

- Article 9: The directors are elected by independent directors and non-independent directors together, but the votes shall be counted separately for electing them respectively.
- Article 10: The voting rights shall be calculated on site immediately after the end of the poll, and the results of the calculation, including the list of persons elected as directors or supervisors and the numbers of votes with which they were elected, shall be announced by the chairman on the site.
- The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.
- Article 11: The election of candidate who is disqualified by the Paragraphs 3 and 4 of Article 26-3 of the Taiwan Securities Exchange Act shall be ineffective.
- Article 12: The board of directors of the Company shall issue notifications to the persons elected as directors or supervisors.
- Article 13: Things that are not stipulated in the Procedures, shall be carried out in accordance with the Company Act, the Articles of the Company of the Company and the relevant laws and regulations.
- Article 14: These Procedures, and any amendments hereto, shall be implemented after approval by a general meeting.

Articles of Association of Phison Electronics Corporation

Chapter I General Provisions

Article 1: The Corporation shall be incorporated, as a company limited by shares, under the Company Act the Republic of China, and its name shall be 「群聯電子股份有限公司」 in the Chinese language, and 「Phison Electronics Corp.」 in the English language..

Article 2: The scope of business of the Corporation shall be as follows:

- (i) CC01080 Electronic Parts and Components Manufacturing
- (ii) I301010 Software Design Services
- (iii) F218010 Retail Sale of Computer Software
- (iv) F119010 Wholesale of Electronic Materials
- (v) F219010 Retail Sale of Electronic Materials
- (vi) CE01030 Photographic and Optical Equipment Manufacturing
- (vii) CC01120 Data Storage Media Manufacturing and Duplicating
- (viii) I501010 Product Designing
- (ix) F401010 International Trade
- (x) ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 2-1: The Company provides external guarantees for its business needs, and its procedures are in accordance with the Company's Procedures for Endorsement and Guarantee.

Article 2-2: The total amount of the Company investment shall not exceed 40 percent of its paid-up capital as provided in Article 13 of the Company Act.

Article 3: The Company set up its headquarters in HsinChu County. If necessary, it may set up branch offices domestically or abroad with a resolution by the board of directors.

Article 4: (Deleted).

Chapter II Shares

Article 5: The total capital of the company is rated at NT\$2.8 billion, divided into 280 million shares, and the amount per share is NT\$10, of which no shares are issued and the board of directors is authorized to issue shares on a separate basis.

In the first total capital, NT\$160 million was reserved, and the shares were divided into 16 million shares at par value of NT\$10 per share, which is for the issuance of employees' share subscription warrants in order to exercise the subscription right. It shall be issued separately based on the resolution of the board of directors.

Article 5-1: The company issues employee stock warrants, the exercise price can be lower than the closing price of the company stocks as of the issuing date. which is required to obtain the consent of at least two-thirds of the voting rights represented at a shareholders meeting attended by shareholders representing a majority of the total issued shares and allowed to register multiple issues over a period of 1 year from the date of the shareholders' resolution.

Article 5-2: The Company transfer to employees at less than the average actual share repurchase price, it must have obtained the consent of at least two-thirds of the voting rights present at the most recent shareholders meeting attended by shareholders representing a majority of total issued shares, and must have listed the following matters in the notice of reasons for that shareholders meeting; it may not raise the matter by means of an extraordinary motion:

1. The exercise price, the valuation percentage, the bases of calculations, and the reasonableness thereof.
2. The number of shares to be transferred, the purpose, and the reasonableness thereof.
3. Qualification requirements for employees subscribing to shares, and the number of shares they are allowed to subscribe for.
4. Factors affecting shareholders' equity:
 - A. The expensable amount, and dilution of the company's earnings per share.
 - B. Explain what financial burden will be imposed on the company by transferring shares to employees at less than the average actual share repurchase price.

Article 5-3: If the company repurchased treasury share, it could be transferred to the employees of the company (or its parents or subsidiaries) who are qualified certain requirements.

If the company issued share subscription warrant, it could be participated by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.

If the company issued restricted stock could be participated by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.

If the company issued new shares, the reservation for employee subscription could be subscribed by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.

The term "certain specific requirements" and "allocation" as used in this article, authorize the board of directors.

Article 6: (Deleted).

Article 7 The Company's stock are all registered share certificates and shall be signed or stamped by the directors who is authorized, recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, the Company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue and may be exempted from printing any share certificate for the shares issued. The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.

Article 8: The registration of stock transfer shall be halted within 60 days prior to the convening date of a regular shareholders' meeting, or within 30 days prior to the convening date of a special shareholders' meeting, or within 5 days prior to the record date fixed by the Company for distribution of dividends, bonus or other benefits.

The period of the preceding paragraph shall be counted from the date of the meeting or the record date.

Article 8-1: The Company's shareholder services are performed according to "Regulations Governing the Administration of Shareholder Services of Public Companies" by competent authority.

Chapter III Shareholders' Meeting

Article 9: Shareholders' meeting can be divided into regular meetings and special meetings.

Regular meetings are convened once a year and usually within six months of the end of each fiscal year. The regular meeting is convened by the board of directors according to the law. Special meetings may be convened according to

the law when necessary.

Article 10: If a shareholder cannot attend a Shareholders Meeting for any reason, it may designate another person to represent it by submitting a proxy that is printed by the Company, specifying the scope of authorization. Shareholders' attendance by designated representatives shall be handled in accordance with Article 177 of the Company Act as well as the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" promulgated by the governing authorities.

Article 11: A shareholder of the Company shall be entitled to one vote for each share held, except in the circumstances set forth in paragraph 3, article 157 and article 179 of the Company Act.

Article 11-1: Shareholders's Meeting shall be convened by the board of directors and chaired by the Chairperson of the Board. When the Chairperson of the Board is on leave, the Chairperson shall appoint one of the directors to act as meeting chairperson, or, if there are no appointment, one of the directors shall be selected from among themselves to act as meeting chairperson. If a shareholders' meeting is convened by a rightful person outside the board of directors, the person convening the meeting shall chair the meeting. When there are two or more conveners, a meeting chairperson shall be elected between them.

Article 12: Unless otherwise stated in the Company Act, any resolution made by the Shareholders Meeting shall be made during a Shareholders Meeting attended by more than half of all shares and passed by the majority of voting rights in attendance.

Article 12-1: The Company shall inform each Director and Supervisor seven days prior to a Board meeting, and in case of emergency, the Company may call the board of directors to a meeting at any time. The Company's board of directors was convened in writing, e-mail, or fax method.

Chapter IV: Directors and Supervisors

Article 13: The Company appoints seven to eleven directors and three supervisors under candidates' nomination system. The term of directors and supervisor shall be three years. Directors and supervisors are elected from the list of candidates and may be eligible for re-election.

The total sum of all registered shares certificates held by all directors and supervisors shall not be less than that as regulated in "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" from the regulatory authority.

Article 13-1: In the aforementioned quota of directors of the Company, the number of independent directors shall be at least two and not less than one-fifth, which are elected from the list of candidates of independent directors in the shareholders' meeting under the candidate nomination system.

In accordance with the relevant regulations of the competent authority, the professional qualifications, shareholding, prohibition on positions held at other companies, nomination and selection process and other matters of the Company's Independent Directors, are processed under relevant legal regulations.

Article 13-2: The Company's board of directors decides whether to set up an audit committee. If the audit committee is set up upon resolution, this Articles of Association regarding the supervisor shall not be applied during the term of the audit committee.

The composition, the scope of duties and power, rules of procedure, and other compliance matters of the audit committee of the company shall be in accordance with the relevant regulations of the competent authority.

Article 14: The board of directors is formed by the directors. The Chairperson, who is to represent the Company externally, is elected by a majority voting of the directors present at a meeting of its board of directors attended by two-thirds or more of the directors of the Company.

Article 15: In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act. The board of directors shall be convened by the Chairperson of the board of directors. The conduct of the board of directors shall be conducted in accordance with the "Rules of Procedure for Meetings of Board of Directors" of the company.

Directors should attend the board of directors in person. If the board of directors takes the video conference, the director's participation in the video conference is regarded as personal in person. In case a director cannot attend a Board meeting in person, he/she may appoint another Director to attend in his/her

behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting. A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other Director only.

Article 16: Compensations for the Chairperson, directors and supervisors of the Company shall be determined by the board of directors according the involvement and contribution of each director, with reference to the industry standards.

The Company shall purchase liability insurance for its Directors and Supervisors for carrying out the scope of their responsibilities during the terms of office for said Directors and Supervisors.

Chapter V Manager

Article 17 This Company may have managers and their appointment, dismissal and remuneration shall be conducted in accordance with Article 29 of the Company Act.

Chapter VI Accounting

Article 18: At the close of each fiscal year of the Company, the board of directors shall prepare, 1) business report, 2) financial statement and 3) the surplus earning distribution or loss off-setting proposal, etc., and shall forward the same to supervisors for their auditing not later than the 30th day prior to the meeting date of a general meeting of shareholders and subsequently submit them to the meeting of shareholders for its ratification.

Article 19: If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations." but the Company shall reserve a portion of profit to make up for accumulated losses, if any.

Employee's remuneration may be distributed in shares or cash, and the counterparty to whom shares or cash are distributed to as employee's remuneration may include the parents or subsidiaries of the company that meet certain criteria and the certain requirements and allocation shall be decided authorize the board of directors. Compensation of directors shall be paid in cash.

The term "profit" as mentioned in the first paragraph refers to "pre-tax profits before deducting the distributed employees and directors' remuneration.

Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.

Article 19-1: If the company's annual final accounts have net profit after tax for this period, the accumulated losses should be made up first, 10% of which is appropriated as legal reserve; however, the occasion when the legal reserve has reached the total paid-in capital of the company is excluded. And according to law or the competent authority to appropriate or reverse special reserves. The remaining surplus, together with unappropriated retained earnings would be reversed appropriately by the board of directors based on actual operating conditions, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.

The company's dividend distribution policy shall consider the company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of the shareholders.

Chapter VII Supplementary Provisions

Article 20: Any matters not prescribed in the Articles, if any, shall be conducted in accordance with the provisions of the Company Act.

Article 21: The Articles were established on October 24, 2000.

The first amendment was made on November 21, 2000.

The second amendment was made on September 5, 2001.

The third amendment was made on February 15, 2002.

The fourth amendment was made on April 9, 2002.

The fifth amendment was made on June 25, 2002.
The sixth amendment was made on March 26, 2003.
The seventh amendment was made on November 12, 2003.
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The eighteenth amendment was made on June 11, 2013.
The nineteenth amendment was made on June 17, 2014.
The twentieth amendment was made on June 2, 2015.
The twenty-first amendment was made on June 15, 2016.
The twenty-second amendment was made on June 13, 2017.
The twenty-thirdly amendment was made on June 12, 2019.

Phison Electronics Corporation
Rules of Procedure for Meetings of Board of Directors
(Before Amendment)

- Article 1 For the purpose of soundness of Board of Directors governance and function of supervision and management, the Rules of Procedure for Meetings of Board of Directors (hereinafter the "Board") are adopted pursuant to Article 2 of the Regulations Governing Procedure for Board of Directors Meetings of Public Companies.
- Article 2 The meeting policy of the Company's Board of Directors, the main agenda items, operational procedures, required content of meeting minutes, public announcements, and other compliance requirements for Board meetings shall be handled in accordance with these rules herein.
- Article 3 The Company's Board meetings shall be convened at least once every quarter. A notice specifying the reason for convening a Board meeting shall be sent to all directors and supervisors seven (7) days before the scheduled meeting day; however, that a Board meeting may be convened on short notice in the event of emergency. Board meetings of the Company may be called through written notice, email, or fax.
- The matters described in the subparagraphs under Paragraph 1, Article 12 of these Rules shall be set out in the meeting notice and may not be raised by an extraordinary motion, except in an emergency or for good reason.
- Article 4 The Company's Shareholders Service Dept. is designated to handle the administrative matters relating to the Company's Board meetings.
- The agenda working unit shall prepare agenda items for Board meetings and provide comprehensive pre-meeting materials, to be sent together with the notice of the meeting.
- A director of the opinion that the pre-meeting materials provided are insufficiently comprehensive may request the agenda working group to supplement the materials. If a director is of the opinion that materials concerning any proposal are insufficient in content, the deliberation of such proposal may be postponed by a resolution of the Board.
- Article 5 When a meeting of the board of directors is held, an attendance book shall be made ready for signature by directors attending the meeting and thereafter made available for future reference.

All board directors shall attend board meetings in person; if attendance in person is not possible, they may, pursuant to the company's articles of association, appoint another director to attend as their proxy. Attendance via video-conference is deemed as attendance in person.

When a director commissions other directors to attend directors meeting by proxy, a letter of authorization shall be presented, and the scope of responsibilities and obligations based on the purpose of the meeting shall be stated.

A proxy under paragraph 2 may accept a proxy from one person only.

Article 6 A board of directors meeting shall be held at the location and during the business hours of the company, or at a place and time convenient to all directors and suitable for holding such a meeting.

Article 7 Meetings of the board of directors shall be called and chaired by the Chairperson of the board. However, the first meeting of each newly elected Board shall be called and chaired by the director who received votes representing the largest portion of voting rights at the shareholders' meeting in which the directors were elected; if there are two or more directors so entitled to call the meeting, they shall choose one person by and from among themselves to do so.

In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act.

Article 8 When the board of directors convenes, the deliberative entity shall prepare the relevant materials for the directors of the meeting to inquire at any time.

When holding a meeting of the board, the Company may, as necessary for the agenda items of the meeting, notify personnel of relevant departments or subsidiaries to attend the meeting as nonvoting participants. When necessary, the company may also invite certificated public accountants, attorneys, or other professionals to attend as nonvoting participants and to make explanatory statements, provided that they shall leave the meeting when deliberation or voting takes place.

When the meeting time arrives and over one-half all Board directors are present, the meeting chairperson may announce convening of the meeting; When the meeting time arrives and one-half all Board directors are not present, the meeting chairperson may announce postponement of the meeting time, provided that only two postponements may be made.

If the quorum is still not met after two such delays, the meeting chairperson shall re-call the meeting following the procedures provided in Article 3, paragraph 2. The term all Board directors as used in the preceding paragraph and in Article 16, paragraph 2, subparagraph 2 shall be calculated as the number of directors then in office.

Article 9 The Company shall record on audio or video tape the entire proceedings of a Board meeting, and preserve the recordings for at least five years, in electronic form.

If before the end of the preservation period referred to in the preceding paragraph any litigation arises in connection with a resolution of a Board meeting, the relevant audio or video recordings shall continue to be preserved until the litigation is concluded.

Where a board of directors meeting is held via video conferencing, the audio and visual documentation of the meeting form a part of the meeting minutes and shall be well preserved during the existence of the company.

Article 10 Agenda items for board of directors meetings shall include at least the following:

1. Reports:

- (i) Minutes of the last meeting and actions arising.
- (ii) Reporting on important financial and business matters.
- (iii) Reporting on internal audit activities.
- (iv) Other important matters to be reported.

2. Discussions:

- (i) Items discussed and continued from the last meeting.
- (ii) Items for discussion at this meeting.

3. Extemporary Motions

Article 11 A Board meeting shall be conducted in accordance with the order of business on the agenda as specified in the meeting notice. However, the order may be changed with the approval of a majority of directors present at the meeting.

The meeting chairperson may not declare the meeting closed without the approval of a majority of directors present at the meeting.

If at any time during the proceeding of a Board meeting the directors sitting at the meeting are not over half of the directors present at the meeting, then upon motion by the directors sitting at the meeting, the meeting chairperson shall declare a suspension of meeting, in which case paragraph 3 of Article 8 shall apply *mutatis mutandis*.

Article 12 The following matters should be discussed by the board of directors of the company:

1. The company's operating plan.
2. Annual and semi-annual financial reports. Semi-annual financial reports which, under relevant laws and regulations, need not be audited and attested by a certified public accountant (CPA).
3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system.
4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others.
5. Offering, issuance, or private placement of any equity-type securities.
6. Appointment or discharge of a financial, accounting, or internal audit officer.
7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.
8. Any matter that, under Article 14-3 of the Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.

The term related party in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term major donation to a non-related party means any individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NT\$100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.

The term within a 1-year period in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.

At least one independent director shall attend in person any meeting of the Board. With respect to a matter prescribed in Paragraph 1 that must be approved by resolution at a Board meeting, all independent directors shall attend the meeting in person or appoint another independent director to attend the meeting as a proxy. If independent directors have opposing or reserved opinions, these opinions shall be recorded in the Board meeting records; if independent directors cannot personally attend Board meeting to express their opposing or reserved opinion, they shall give a written opinion before the meeting unless they have an appropriate reason and the opinion shall be recorded in the Board meeting records.

Article 13 When the chair at a board meeting is of the opinion that a matter has been sufficiently discussed to a degree of putting to a vote, the meeting chairperson may announce the discussion closed and bring the matter to vote.

When a proposal comes to a vote at a board of directors meeting, if the meeting chairperson puts the matter before all directors present at the meeting and none voices an objection, the matter is deemed approved. If a dissent is put forth upon inquiry made by the meeting chairperson, the matter shall be brought to vote.

All directors present at the meeting in the preceding two paragraphs does not include directors prohibited from exercising voting rights pursuant to Article 15. The method of voting shall be the meeting chairperson's selection of either of the following; in case an attendee is of dissenting opinion, resolution shall be made upon opinion of a bigger proportion of the attendees.

1. Vote by raising hands
2. Vote by roll call.
3. Vote by ballot.
4. Vote for which the Company opt.

Article 14 Except as otherwise stated in the Securities and Exchange Act or in the Company Act, a resolution on a matter at a Board meeting requires the approval of a majority of the directors present at the meeting that shall be attended by a majority of all directors.

When there is an amendment or an alternative to same proposal, the meeting chairperson shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. If one of the proposals is approved by vote, the rest is deemed voted down, none of which requires re-vote.

Vote monitoring and counting is appointed by the meeting chairperson when necessary, provided that scrutineer shall be a director.

The result of voting shall be reported on the spot and prepared in the minutes.

Article 15 If any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter.

When the Board of Directors votes on resolutions, the provisions of Article 180, paragraph 2 of the Company Act is applied mutatis mutandis pursuant to Article 206, paragraph 3 of the same Act for directors who are prohibited from exercising their voting rights following the regulation of the preceding paragraph.

Article 16 Proceedings of the Board meetings shall be recorded in the meeting minutes.

The meeting minutes shall record the following:

1. Session (or year), time, and place of meeting.
2. Name of the meeting chairperson.
3. Attendance of directors at the meeting, specifying the names and number of members present, excused, and absent.
4. Names and titles of those attending the meeting as nonvoting participants.
5. Name of minutes taker.
6. Matters reported on.
7. Agenda items: the method and result of the resolution of each proposal; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director under Article 12-4.

8. Extraordinary motions: the name of the mover; the method of resolution and the result for each motion; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing.

9. Other matters required to be recorded.

Any of the following matters in relation to a resolution passed at a meeting of the board of directors shall be stated in the meeting minutes and within two days of the meeting be published on an information reporting website designated by the competent authority:

1. Any matter about which an independent director expresses an objection or reservation that has been included in records or stated in writing.
2. That has not been approved by the audit committee of the company but has been passed by more than two-thirds of all directors, if the company has an audit committee.

The attendance book forms a part of the minutes for each Board meeting and shall be well preserved during the existence of the company.

The minutes of a board of directors meeting shall bear the signature or seal of both the meeting chairperson and the minutes taker; a copy of the minutes shall be distributed to each director and supervisor within 20 days after the meeting and well preserved as important company records during the existence of the company.

The production and distribution of the meeting minutes referred to in paragraph 1 may be done in electronic form.

Article 17 In addition to the matters discussed in Paragraph 1 of Article 12, the board of directors, in accordance with the law or the Company's Articles of Association, may authorize the Chairman to exercise the powers of the Board of Directors.

The authorized contents are as follows:

1. Based on the Company's level of authority table
2. Based on Company regulations, system and rules.
3. Appointment of the directors and supervisors in invested companies.
4. Approval of the record date of capital increase or decrease, and the record date of cash dividend distribution.

Article 18 If managing directors were set, the provisions of Article 2, paragraph 2 of Article 3, Articles 4 to 6, Article 8 to 11, and Articles 13 to 16 shall apply to the procedure for meetings of the managing directors of the Company. Provided that if a meeting of managing directors is scheduled to be convened within seven days, the notice to each managing director may be made two days in advance.

Article 19 Adoption and amendment of these rules shall be approved by the Board of the Company and submitted to Shareholders' meeting for reporting.

Phison Electronics Corporation
Current Shareholding of Directors and Supervisors

1. The statutory shareholding of directors and supervisors of the Company are as follows:
Types and total number of shares issued by the Company: 197,073,993 common shares.
Statutory minimum number of shares held by all directors is 11,824,439 shares.
Statutory minimum number of shares held by all supervisors is 1,182,443 shares.
2. As of April 5, 2020, the book closure date of the general shareholders' meeting, the number of shares held by all directors and supervisors:

Record date: April 5, 2020

Position	Name	Current shareholding (shares)	Representative
Chairperson	Khein Seng Pua	4,557,972	
Director	Toshiba Memory Corp.	19,821,112	Hiroto Nakai
Director	Cheek Kong Aw Yong	3,409,745	
Director	Tzung Horng Kuang	1,408,736	
Director	Chih Jen Hsu	1,020,301	
Independent Director	Shu Fen Wang	0	
Independent Director	Chen Wei Wang	0	
Number of shares actually held by all directors		30,217,866	
Shareholding ratio of total issued shares (%)		15.33	
Supervisor	Yeong Jiunn Yang	4,549,114	
Supervisor	Huei Ming Wang	171,750	
Supervisor	Chiun Hsiou Chen	0	
Number of shares actually held by all supervisors		4,720,864	
Shareholding ratio of total issued shares (%)		2.40	

Appendix 6

The effect of dividend distributions for the current fiscal year on the Company's operating performance, earnings per share, and return on equity

Unit: In Thousands of New Taiwan Dollars
(Excluding earnings per share and cash dividend of New Taiwan

Dollars)

Year		2020	
Item		(Estimated)	
Paid-in capital at beginning of year		1,970,740	
Current year	Cash dividends per share [Note 1]	NT\$13	
Distribution of shares and cash	Share distribution per share when capitalizing capital reserve	-	
Changes in Operating Performance	Operating profit	[Note 2]	
	Operating profit increase (decrease) ratio over the same period last year		
	Net income after tax		
	Post-tax net profit increase (decrease) ratio over the same period last year		
	Earnings Per Share		
	Earnings per share increase (decrease) ratio over the same period last year		
Pro forma earnings per share and P/E ratio	average annual return on investment (annual average PE ratio)	[Note 2]	
	If capital increases by retained earnings, cash dividend distribution will be replaced instead.		Pro forma earnings per share
	If capital reserves is not used for capital increase		Pro forma average annual return on investment
	If capital reserves is not used for capital increase and capital increase by retained earnings, cash dividend distribution will be replaced instead.		Pro forma average annual return on investment

[Note 1] If there is change in the Company's number of outstanding shares on the ex-dividend record date, the Chairman is authorized to recalculate the cash dividend payout ratio.

[Note 2] The Company did not disclose financial forecasts for the year 2020, so it is not necessary to disclose the estimated operating performance, earnings per share, and Pro Forma information for the year 2020.

Additional information

Proposal raised by shareholders in this general shareholders' meeting:

Explanation:

1. According to Article 172-1 of the Company Act, a shareholder who holds more than 1 percent of the total number of issued shares may raise a proposal in writing, provided that one shareholder is limited to one proposal. Each proposal shall not be longer than 300 Chinese characters. Otherwise, the proposal will be rejected.
2. The Company set the period from March 27 to April 5, 2020 for acceptance of shareholder proposals and this information has been announced publicly at MOPS based on the regulations.
3. The Company did not receive any proposal from shareholders.

