



**PHISON**

Stock code : 8299



## **Phison Electronics Corporation**

### **Handbook for 2023 Annual General Meeting of Shareholders**

Convention Method: Physical shareholders meeting

Meeting time: May 31, 2023

Venue: No. 1, Qunyi Road, Zhunan Township, Miaoli County  
(located in Guangyuan Science and Technology Park)

#### Notice to Readers

For the convenience of readers, the Handbook for the 2023 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 2023 Annual General Shareholders' Meeting shall prevail.

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Phison Electronics Corporation  
Meeting Procedure of 2023 Annual General Meeting of  
Shareholders

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 2023 Annual General Meeting of Shareholders

Convention Method: Physical meeting

Meeting time: 9 a.m., Wednesday, May 31, 2023

Venue: No. 1 Qunyi Road, Zhunan Township, Miaoli County  
(located in Guangyuan Technology Park)

Meeting chairman: Mr. Wee Kuan Gan, Chairman of the Board

1. Meeting Chairman's Remarks

2. Matters to Report

Case No. 1: The Company's 2022 business report.

Case No. 2: Report on Audit Committee's Review Report of 2022 Financial Statements.

Case No. 3: Report on 2022 Employees' and Directors' Remuneration Distribution.

Case No. 4: Report on the Company's surplus earning distribution in the form of cash dividends of 2022.

Case No. 5: Report on the implementation of the First Domestic Unsecured Convertible Corporate Bonds of the Company.

Case No. 6: Report on the actual handling situation of 2022 general shareholders' meeting's resolution on private placement of common shares.

Case No. 7: Report on the Implementation of Treasury Stocks and Rules of Share Repurchase and Transferring to the Employees.

Case No. 8: Amendment to part of the "Corporate Governance Best Practice Principles" of the Company.

Case No. 9: Report of the Company's Investment in the Mainland.

### 3. Proposals

Case No. 1: The Company's 2022 Business Report and Financial Statements.

Case No. 2: The Company's 2022 profit distribution.

### 4. Election

Case No. 1: Election of the 10th 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: Release of the New Directors from Non-Competition Restrictions.

### 6. Extraordinary Motions

### 7. Adjournment

# Matters to Report

Case No. 1: (Proposed by the Board)

Note: The Company's 2022 business report.

Explanation: For the Company's 2022 business report, please refer to Attachment 1 on page 19 to 25 of this handbook.

Case No. 2: (Proposed by the Board)

Note: Report on Audit Committee's Review Report of 2022 Financial Statements.

Explanation: For the Audit Committee's Review Report of 2022 Financial Statements, please refer to Attachment 2 on page 26 to 27 of this handbook.

Case No. 3: (Proposed by the Board)

Note: Report on 2022 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 compensations".

2. In the year of 2022, the Company earned NT\$7,267,623,980 (the amount represents the pre-tax profit before deducting of employees' and directors' remuneration), and it intends to distribute NT\$1,000,000,000 from 2022's profits for employees' compensation (about 13.76% of the profits for the year 2022) and NT\$35,000,000 for directors (about 0.48% of the profits for the year 2022), all in cash.

Case No. 4: (Proposed by the Board)

Note: Report on the Company's surplus earning distribution in the form of cash dividends of 2022.

Explanation: Pursuant to the Company Act and the Articles of Association of the Company, the surplus earning distribution of the Company may be proposed at the close of each half fiscal year. If the surplus earning distribution is distributed in cash, the Board of Directors is authorized to adopt a resolution to distribute the surplus earning. The implementation of the Company's surplus earning distribution in the form of cash dividends of 2022:

2022	Date of the resolution of the Board (YYYY/MM/DD)	Date of distribution (YYYY/MM/DD)	Cash dividend per share (NTD)	Total amount of cash dividend (NTD)
H1	2022/07/29	2023/01/06	10.27746561 (Note 1)	1,970,739,930
H2	2023/03/15	Not yet decided	4.5 (Note 2)	865,961,969
Total				2,836,701,899

Note 1: The distribution amount per share is calculated based on the actual total number of outstanding shares adjusted for the ex-dividend date.

Note 2: Based on the Company's actual total number of 192,435,993 outstanding shares as of February 28, 2023, and the proposed cash dividend per share is NT\$4.5. The actual amount of cash dividends to be distributed per share will be calculated based on the actual total number of shares in circulation on the ex-dividend date, and will be distributed in accordance with the shares held by the shareholders listed in the shareholders' register on the ex-dividend 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.

Case No. 5: (Proposed by the Board)

Note: Report on the implementation of the First Domestic Unsecured Convertible Corporate Bonds of the Company.

Explanation: The implementation of the First Domestic Unsecured Convertible Corporate Bonds of the Company are as follows:

Name	Phison Electronics Corporation First Domestic Unsecured Convertible Corporate Bonds
Date of approval	September 8, 2021
Reason of issuance	Purchase real estate, plant and equipment, repletion of working capital
Date of issuance	December 17, 2021
Total amount of issuance	NT\$3,500,000,000
Par value of issuance	NT\$100,000
Price of issuance	NT\$100,500
Duration of issuance	Three years. From December 17, 2021 to December 17, 2024
Coupon rate	0.00%
Current conversion price	NT\$520.6
Repayment method	Unless the holder of the convertible corporate bonds has converted the bonds into the common stock of the Company in accordance with Article 10 of the Regulations for the Issuance and Conversion of the First Domestic Unsecured Convertible Corporate Bonds, or the Company has redeemed the bonds in advance in accordance with Article 18 of the aforementioned Regulation, or the Company has repurchased and canceled the convertible corporate bonds at the business offices of securities firms, the Company shall repay the convertible corporate bonds in cash in one lump sum according to the face value of the bonds upon maturity. The payment will be made in ten business days (including the tenth business day) after the date of maturity.
Conversion situation	As of April 2, 2023 the suspended conversion date of the Company Bond, No conversion situation of this convertible corporate bond.



Case No. 6 (Proposed by the Board)

Note: Report on the actual handling situation of 2022 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 2022 general shareholders' meeting on May 24 2022, and resolution was granted to proceed one or two times within one year from the date of the resolution of the general shareholders' meeting. The board of directors decided that this private placement of common shares would no longer be conducted as the expiration date was approaching and the abovementioned private placement of common shares has not yet been issued, and there is no plan to proceed with the private placement of common shares in the remaining time period.

Case No. 7 (Proposed by the Board)

Note: Report on the Implementation of Treasury Stocks and Rules of Share Repurchase and Transferring to the Employees.

Explanation: Please refer to Attachment 3 on page 28 to 31 of this handbook for the Implementation of Treasury Stocks and Rules of Share Repurchase and Transferring to the Employees.

Case No. 8 (Proposed by the Board)

Note: Amendment to part of the “Corporate Governance Best Practice Principles” of the Company.

Explanation: 1. In response to the amendments to the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” on December 8, 2021 (No. 1100024981) and on March 8, 2022 (No. 1110004250), the Company revised part of the “Corporate Governance Best Practice Principles”.

2. Please refer to Attachment 4 on page 32 to 38 of this handbook for the comparison table of the above amendments.

Case No. 9 (Proposed by the Board)

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

Explanation: Please refer to Attachment 5 on page 39 to 40 of this handbook for information on the Company's investment in the Mainland in 2022.

# Proposals

Case No. 1 (Proposed by the Board)

Note: The Company's 2022 Business Report and Financial Statements.

Explanation: 1. The Individual Financial Statements of the Company for the year of 2022 (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, Ms. Qian Hui Lu and Mr. Wan Yuan Yu, of KPMG and Audit Committee. Please refer to the aforementioned Financial Statements and Independent Auditor's Report together with the Business Report.

2. For the 2022 Business Report, Individual Financial Statements and Consolidated Financial Statements, please refer to Attachment 1 on page 19 to 25 and Attachment 6 on page 41 to 59, of this handbook respectively.

Resolution:

Case No. 2 (Proposed by the Board)

Note: The Company's 2022 profit distribution.

Explanation: The net profit after tax in 2022 was NT\$5,401,145,760. The company prepared a statement of profit distribution for the year ended December 31, 2022, in accordance with the Article of Incorporation of the company as follow:

**Phison Electronics Corporation**  
**PROFIT DISTRIBUTION TABLE**  
**Year 2022**

(Unit: NT\$)

Item	Amount
<b>Retained earnings at the beginning of the period</b>	<b>19,485,703,291</b>
Net profit after tax of Year 2022	5,401,145,760
Less: Change in re-measurement of defined benefit plans in Year 2022	6,684,420
Add: Disposal of equity instruments at fair value through other comprehensive income	94,931,771
<b>The total of, the net profit after tax of the period plus the else items of the period be included in the undistributed earnings.</b>	<b>5,489,393,111</b>
<b>Less: 10% Legal Reserve</b>	<b>548,939,311</b>
Reserved for first half of 2022	399,191,497
The balance of Legal Reserve	149,747,814
<b>Less: Special Reserve based on regulations</b>	<b>216,810,188</b>
Reserved for first half of 2022	0
The balance of Special Reserve based on regulations	216,810,188
<b>Distributed earnings as of December 31, 2022</b>	<b>24,209,346,903</b>
<b>Distributable items:</b>	
<b>Dividend to shareholders-Cash</b>	<b>2,836,701,899</b>
First cash dividends distributed of the year (NT\$10.27746561 per share)	1,970,739,930
Second cash dividends distribution (NT\$4.5 per share)(Note)	865,961,969
<b>Unappropriated retained earnings by the end of the period.</b>	<b>21,372,645,004</b>

Note: : Based on the Company's actual total number of 192,435,993 outstanding shares as of February 28, 2023, and the proposed cash dividend per share is NT\$4.5. The actual amount of cash dividends to be distributed per share will be calculated based on the actual total number of shares in circulation on the ex-dividend date.

Chairman :

Manager :

Accounting Supervisor :

Resolution:

# Election

Case No. 1 (Proposed by the Board)

Note: Election of the 10th session of the Company's directors, including 9 directors (and 3 independent directors).

- Explanation:
1. The term of office of the Company's 9th (existing) session of directors will expire on June 2, 2023. In accordance with the Company Act and the Company's Articles of Incorporation, the Company proposes to elect the 10th session of directors, including 9 directors (and 3 independent directors) at the general shareholders' meeting this year.
  2. 9 directors (including 3 independent directors) will be re-elected for the 10th session of directors. The new directors will be appointed immediately after the end of the shareholders' meeting for a term of three years from May 31, 2023 to May 30, 2026.
  3. 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 7 on page 60 to 64 of this handbook.
  4. Submitted for election.

Election results:

# 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	Proceeds of the private placement funds will be fully operational in order to enrich the necessary working capital in response to develop long-term operations. Additionally, seek product technology cooperation, business cooperation, or strategic alliance with domestic/international customers.	Reduce the company's operating risks, strengthen its financial structure, and improve the company's future operating performance
Twice in two transactions	Each proceeds of the private placement will be fully operational in order to enrich the necessary working capital in response to develop long-term operations. Additionally, seek product technology cooperation, business cooperation, or strategic alliance with domestic/international customers.	Two occasions are to reduce the company's operating risk, strengthen its financial structure, and improve the company's future operating performance.

(4) There is no significant change in managerial control within 1 year period immediately preceding the day on which the board of directors resolves on this private placement plan. And the subscriber will be limited to the strategic investors, after conducting this private placement plan that will have a positive contribution to the Company's business development.

(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 Chairman 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: 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 65 of this handbook.

Resolution:

## **Extraordinary Motions Adjournment**

# **Attachments**

# PHISON Electronics Corporation

## 2022 Business Report

### 1. Operating Strategy and Execution Overview :

The overall economic environment in 2022 is full of variables and challenges due to various factors such as the epidemic, war, inflation and interest rate hikes. Relying on its leading position in technology, Phison Electronics continues to develop new products to meet market demand in a highly competitive and ever-changing operating environment, allowing Phison Electronics to maintain stable operating results in 2022. With the unremitting efforts of all Phison team, the consolidated total revenue in 2022 is approximately NT\$60.26 billion, the consolidated after-tax net profit is approximately NT\$5.4 billion, and the earnings per share is NT\$27.71.

In 2022, the company's overall shipments of SSD and embedded memory-related controllers and modules account for about 71% of the company's overall revenue. In addition, Phison continues to actively develop advanced UFS and PCIe SSD controllers to become the best choice for next-generation high-performance data transmission and customized high-speed storage solutions. More importantly, Phison also continues to deploy servers, data centers, and automotive storage system markets to seize future growth momentum business opportunities. Furthermore, the R&D team is also actively investing in key IP development and advanced nodes to provide the most advanced and complete product lineup in order to meet the rising demand for NAND storage applications due to trends such as 5G popularization, edge computing, AI, and cloud services.

With the gradual realization of global 5G infrastructure and product applications, technological applications such as the cloud, big data, metaverse, AI, and the Internet of Everything that drive high-speed access to large amounts of data are more vigorous. Furthermore, various e-sports software and game console upgrades increase the demand for ultra-high-speed data access, which is expected to continue to push up the penetration rate of ultra-high-speed SSDs to maintain rapid and steady growth. The company has launched different NAND controllers in response to different application markets, including SSD controllers that meet the mainstream PCIe Gen3x4

NVMe specifications in the market, industry-leading high-end PCIe Gen4x4 NVMe SSD controllers, and the next-generation PCIe Gen5 flagship SSD controllers, providing the most complete PCIe SSD storage solutions for the market. In the high-end application/enterprise SSD application market, the company's customizable enterprise SSD solutions S12DC, E12DC, E18DC, X1 series and the world's highest-capacity enterprise-level QLC SSD storage solutions continue to be recognized by the market. Additionally, Phison's R&D center located in Colorado, USA, has continued to ferment the development results. It not only effectively cooperates with partners to develop and verify products, but also serves Tier-1 enterprise server manufacturer customers nearby.

In terms of embedded and mobile device applications, the company, as one of the few leading companies in the world that provides complete eMMC and UFS controllers, is committed to technology research and development with lower power consumption and lower heat generation, and continues to upgrade BGA SSDs to PCIe NVMe specifications. Phison not only is the best choice for embedded systems and mobile device applications that require high-speed, thin, light and compact data storage, but also promotes mobile storage devices into a new era of higher speed and more energy-saving. In addition, Phison took the lead in launching new UFS 3.2 controllers equipped with Phison's exclusive technologies, including StrongECC™, Advance LDPC, CoXProcessor™ and RAID architecture. Phison not only provides low power consumption, exhibits excellent error correction capabilities, but also provides performance close to SSD.

In terms of SD memory cards, the company released and mass-produced the latest controller PS5017 for SD & microSD cards compatible with SD7.0/8.0 (SD Express) specifications. It has the absolute advantage of high-speed random access, and provides up to 1TB data storage capacity, which is the highest specification in the industry, targeting the high-definition resolution image application market. In terms of USB series products, Phison's latest NAND controller PS2251-18 conforms to the USB 3.2 specification, and is specialized in high-capacity mobile storage applications.

Looking forward to 2023, Phison will continue to expand R&D investment, and expand NAND storage applications in an all-round way through a technology-leading strategy, including the expansion of high value-

added markets such as embedded application markets, vehicle application systems, and enterprise server markets. Moreover, based on the technological leadership of PCIe Gen4 SSD controllers, we will continue to improve technology to launch industry-leading PCIe Gen5 SSD controllers, or even a new generation of PCIe Gen6 SSD controllers in the future, letting customers around the world continue to feel Phison's technology research and development capabilities, and expand and deepen cooperation with Phison. In the future, Phison will continue to focus on its own business, strengthen its research and development capabilities, and continue to create win-win outcomes for shareholders, employees, and customers.

## 2. 2022 Business Results

(1) Description of business results:

① Consolidated operating revenue:

The consolidated net operating revenue of the company for the year 2022 was NT\$60,256,142 thousand, which was slightly lower than the year of 2021 of NT\$62,557,192 thousand by 3.68%.

② Consolidated net profit after tax:

The consolidated net profit after tax of the company for the year 2022 was NT\$5,401,146 thousand, which was a decrease of 33.71% compared with the year of 2021 of NT\$8,147,215 thousand.

(2) Budget implementation: The Company did not disclose its financial forecasts of the year of 2022, 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	2022	2021	Increases (decreases)	Proportion of the changes (%)
Operating revenue	60,256,142	62,557,192	(2,301,050)	(3.68)
Gross profit	17,349,892	19,099,784	(1,749,892)	(9.16)
Net Operating Income	6,843,922	9,084,449	(2,240,527)	(24.66)
Non-operating income and expenses	(547,002)	653,165	(1,200,167)	(183.75)
Net profit after tax	5,401,146	8,147,215	(2,746,069)	(33.71)

② Financial profitability of consolidated operation

Item		2022	2021
Financial structure	Liability to asset ratio (%)	37.27	40.80
	Long-term asset to real estate, plant and equipment ratio (%)	557.94	619.41
Debt-paying ability	Current ratio (%)	260.78	227.68
	Quick ratio (%)	144.52	138.25
	Interest coverage ratio (times)	176.98	513.34
Operation performance	Receivables turnover ratio (times)	7.55	8.48
	Average days of receipt (days)	48.34	43.04
	Inventory turnover ratio (times)	2.15	2.93
	Average sales days (days)	169.76	124.57
	Payables turnover ratio (times)	5.64	6.95
	PP&E turnover ratio (times)	8.46	11.07
	Total asset turnover ratio (times)	0.98	1.13
Profitability	Return on assets (%)	8.83	14.76
	Return on equity attributable to owners of parent company (%)	14.41	22.49
	Ratio of operating income to paid-in capital (%)	344.48	460.97
	Ratio of pre-tax income to paid-in capital (%)	316.95	494.11
	Net income ratio (%)	8.96	13.02
	Basic earnings per share (NTD)	27.71	41.34
Cash flow	Cash flow ratio (%)	20.29	23.35
	Cash flow adequacy ratio (%)	51.42	56.80
	Cash re-investment ratio (%)	(2.18)	1.33
Leverage	Degree of operating leverage (DOL)	1.15	1.09
	Degree of financial leverage (DFL)	1.01	1.00



#### (4) Overview of R&D

① Research and development costs in 2022 and the most recent two years:

The consolidated R&D expenses for 2022, 2021 and 2020 are NT\$8,130,501 thousand, NT\$8,127,841 thousand and NT\$6,752,676 thousand respectively, accounting for 13.49%, 12.99% and 13.92% of the consolidated operating revenue for each period. And as of the end of December 2022, the company has obtained 1,886 patents approvals from various countries.

② R & D results:

In 2022, the following products have been successfully developed and launched, including:

- a. The world's first mass-produced consumer PCIe 5.0 SSD controller PS5026-E26, with a maximum speed of over 12,000MB/s and a maximum capacity of 4TB, is a flagship SSD solution that can bring extreme performance to high-end gaming.
- b. The world's first SD Express solution PS5017 (SD Express specification) SD card controller that has passed SDA SVP verification, meets the high-definition resolution pluggable storage application environment, and brings better user experience to content creators.
- c. The world's first PCIe 5.0 Redriver IC PS7101 certified by the PCI-SIG Association, which solves the problems of high-speed transmission signal attenuation and compatibility.
- d. Launched a SSD storage solution equipped with a customizable enterprise PCIe 4.0 SSD controller PS5018-E18DC, which is very suitable for workstations, servers, NAS, and RAID systems.
- e. Launched the industry's most advanced enterprise PCIe 4.0 SSD solution X1, which is a high-speed, low-power, cost-effective and customizable enterprise SSD platform.
- f. The DRAM\_Less version of the SATA III SSD controller PS3117-S17T has a maximum capacity of 4TB, meeting the upgrade needs of the PC DIY market.
- g. The new-generation UFS 2.2/3.1 controller equipped with 12nm process not only supports the latest NAND technology, but also provides brand-new ultra-high-speed performance for high-end portable devices and meets the trend of 5G wireless transmission.

- h. Developed a high-capacity USB3.2 Gen2x2 PS2251-18 controller that supports high-speed random writing to meet the huge data transmission needs of high-resolution video and audio markets such as content creation.
  - i. For more advanced manufacturing processes, develop next-generation PCIe PHY, and continue to lay out the field of IP authorization.
  - j. Developed a new generation of error correction modules to support high-level 3D TLC/QLC and next-generation PLC flash memory.
  - k. Developed smaller, higher-capacity and more power-saving controller solutions, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, and meet the high-speed storage needs of mobile devices.
  - l. Developed controllers that meet automotive specifications, and pass various automotive certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the needs of the automotive electronics market.
- ③ Based on market demand trends, industry competition, and new product launch schedules, the company currently plans to develop or continuously upgrade product lines in 2023 as follows:
- a. PS5025-E27T PCIe Gen4 SSD controller, designed without external DRAM, with a maximum speed of 7000MB/s, will be the best choice for a new generation of PC gamers.
  - b. PS8325 UFS 3.1 controller is a next-generation mobile storage device that supports QLC, and its maximum performance will reach more than 2000MB/s.
  - c. Continue to develop high-end enterprise SSDs, support higher capacity, higher speed and interface fault tolerance, and cooperate with strategic partners for joint research and development to meet the needs of the enterprise storage market.
  - d. Continue to develop smaller, higher-capacity and more power-saving controller solutions, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, to meet the high-speed storage needs of future mobile devices.

- e. Continue to develop controllers that meet automotive specifications, and continue to strengthen the passing of various automotive certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the ever-increasing demand for automotive electronics.
- f. Continue to launch Redriver/Retimer ICs for PCs, servers, and vehicle systems to provide the best signal stabilization solution for high-speed transmission platforms.

**Phison Electronics Corp.**

Wee Kuan Gan, Chairman

Chee Kong Aw Yong, President

Pao Feng Chen, Accounting Director

## **Audit Committee's Review Report**

The board of directors prepared the Company's 2022 Business Report, Financial Statements and profit distribution, etc. The CPA firm of KPMG audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements and profit distribution were audited by Audit Committee and found no discrepancy, as reported in accordance with the Securities and Exchange Act and Company Act, please check.

To

2023 Annual General Meeting of Shareholders

Phison Electronics Corp.

Audit Committee Convener :

Wen Chiu Chung

March 15, 2023

## **Audit Committee's Review Report**

(Amendments to earnings distribution plan)

The board of directors prepared the Company's 2022 Business Report, Financial Statements and profit distribution, etc. The CPA firm of KPMG audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements and profit distribution were audited by Audit Committee and found no discrepancy.

Amendments to earnings distribution plan, the attachment of aforementioned earnings distribution proposal, were made to revise the actual dividends by cash distributed for the first half of 2022. The amendments were reviewed by the Audit Committee on April 20, 2023, and no discrepancies were found.

As reported in accordance with the Securities and Exchange Act and Company Act, please check

To

2023 Annual General Meeting of Shareholders

Phison Electronics Corp.

Audit Committee Convener :

Wen Chiu Chung

April 20, 2023

### Implementation of Treasury Stocks

Sessions of share repurchase	The 3th time (first time of 2022)
Purpose of share repurchase	Transfer shares to employees
Share repurchase period	Scheduled : 2022/07/18~2022/09/16 Actual : 2022/08/01~2022/09/16
Share repurchase price range	NT\$200 to NT\$325
Scheduled repurchase quantity	10,000,000 shares of common shares
Type and actual number of shares repurchase	6,860,000 shares of common shares
Total amount of share repurchase	NT\$2,061,215,579
Average price per share of share repurchase	NT\$300.47
The ratio of repurchased quantity in scheduled repurchase quantity	68.60%
Number of shares retired and transferred	No Transferred
Cumulative number of shares held by the Company	6,860,000 shares
Percentage of cumulative number of shares held in total number of issued shares (Note)	3.44%

Note: Calculated based on the total number of issued shares of the Company as of April 2, 2023, which is 199,624,993 shares.

# **Phison Electronics Corporation**

## **Rules of Share Repurchase and Transferring to the Employees**

This Rules was established on July 15, 2022  
The first amendment was made on August 19, 2022  
The second amendment was made on April 20, 2023

### **Article 1**

For the purpose of encouraging our employees and to build cohesion among the employees, the Company hereby, pursuant to Article 28-2, Paragraph 1, Subparagraph 1 of the “Securities and Exchange Act” and the “Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies” issued by Financial Supervisory Commission R.O.C., establishes the “Rules of Share Repurchase and Transferring to the Employees” (the “Rules”). Except otherwise provided in relevant laws or regulations, all share repurchase and transferring to the employees of the Company shall be implemented in compliance with the Rules.

### **Article 2 Type of transfer of shares, content of rights and restrictions on rights**

The shares to be transferred to the employees are ordinary shares. Except as otherwise provided in relevant laws or regulations or in this Plan, the rights and obligations embedded thereon are the same with other ordinary shares of the Company.

### **Article 3 Transfer period**

The repurchased shares can be transferred to employees in one time or several times, such subscription day(s) shall be set within 5 years from the date of share-repurchase.

### **Article 4 Transferee’s eligibility**

Full-time employees who starts employment before the date of the subscription and in the official establishment of the company, including its domestic and foreign controlling company or its subordinate company (in letter #1070121068 sent by the Financial Supervisory Commission on Dec. 27, 2018 are eligible.), or the company’s domestic and foreign subsidiaries (including overseas subsidiaries)

which the company directly or indirectly hold more than 50% of the voting shares, may be determined to have the qualification to subscribe, in accordance with Article 5 of the Rules.

**Article 5 Numbers of shares to be subscribed by employees**

The Board of Directors shall decide the qualifications and the actual number of shares to be subscribed by considering certain factors, such as the employees' level, seniority or special contribution to the Company, together with the number of treasury shares held by the Company as of the record date of subscription and the maximum number of shares that can be subscribed by an individual employee, etc. However, those managerial officers in the list of subscribers shall first be submitted to the Remuneration Committee for deliberation and then submitted it to the Board of Directors for resolution, and those who are not managerial officers shall first be submitted it to the Audit Committee for deliberation and then submitted it to the Board of Directors for resolution.

**Article 6 The transfer procedure**

The transfer procedure of this share repurchase program is described as follows:

- (1) In accordance with the resolution of the board of directors, announce, declare and repurchase the shares of the company within the execution period
- (2) The Board of Directors set and announce the employees' subscription date, the standards for numbers of shares to which employees may subscribe, the period for payment or subscriptions, rights, and limitations, etc.
- (3) To calculate the actual share subscription with payment received, and transfer the shares accordingly.

**Article 7 The transfer price of the shares**

The transfer price of the repurchase shares shall be the average price of the actual repurchase. If the number of the Company's issued and outstanding ordinary shares increases or decreases prior to the transfer, the transfer price shall be adjusted proportionately.

Adjustment formula of the transfer price:

Adjusted transfer price = Average price of the actual repurchase shares × (Number of the company's ordinary shares issued as completion of the repurchase program / Number of the company's ordinary shares issued before the repurchase



program)(Noted)

Note: Numbers of the ordinary shares shall be subject to the total number of issued shares registered by the Ministry of Economic Affairs

#### **Article 8 Rights and obligations of shares after transfer**

After the repurchased shares are being transferred and registered under employees' names, unless otherwise specified, the rights and obligations associated with the shares are the same as the original associated with the common shares.

#### **Article 9 Other rights and obligations of the Company and employee**

Transferee is not qualified to subscribe the shares if she or he resigns, leaves without pay (excluding parental leave), passes away, retires, is terminated employment relationship due to violating employment agreement or work rules between subscription base date and payment due date. Notwithstanding the foregoing, the following rules are applied:

- (1) In the event transferee passes away between subscription base date and payment due date due to occupational injury, transferee's successor is entitled to pay subscription price to acquire the shares.
- (2) In the event transferee is transferred to the Company's subsidiary between subscription base date and payment due date, transferee is entitled to pay subscription price to acquire the shares.

Shares being subscribed in accordance with these Rules is subject to tax code and regulations of Taiwan, Republic of China.

#### **Article 10 Other matters related to transfer**

The un-transferred shares in those repurchased shares to be transferred to the employees that are not transferred in the limited period, will be deemed as unissued shares and so purchased are canceled.

#### **Article 11**

This Rules shall take affect after being affirmatively resolved by the Board of Directors and may be amended by a resolution of the Board of Directors.

#### **Article12**

Any matters not mentioned herein shall be handled in accordance with relevant regulations or the requirements of the competent authority.

**【 Comparison Table of Amendments to the Corporate Governance Best Practice Principle 】**

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
Article 6	The board of directors of the Company shall properly arrange the agenda items and procedures for shareholders meetings, and formulate the principles and procedures for shareholder nominations of directors and submissions of shareholder proposals. The board shall also properly handle the proposals duly submitted by shareholders. Arrangements shall be made to hold shareholders meetings at a convenient location, with sufficient time allowed and sufficient numbers of suitable personnel assigned to handle attendance registrations. No arbitrary requirements shall be imposed on shareholders to	Article 6	The board of directors of the Company shall properly arrange the agenda items and procedures for shareholders meetings, and formulate the principles and procedures for shareholder nominations of directors and submissions of shareholder proposals. The board shall also properly handle the proposals duly submitted by shareholders. Arrangements shall be made to hold shareholders meetings at a convenient location <u>and may be held by means of visual communication network</u> , with sufficient time allowed and sufficient numbers of suitable personnel assigned to handle attendance registrations. No	Amended in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies”.

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
	<p>provide additional evidentiary documents beyond those showing eligibility to attend. Shareholders shall be granted reasonable time to deliberate each proposal and an appropriate opportunity to make statements.</p> <p>For a shareholders meeting called by the board of directors, it is advisable that the board chairperson chair the meeting, that a majority of the directors (including at least one independent director) and convener of the audit committee, and that at least one member of other functional committees attend as representative.</p> <p>Attendance details should be recorded in the shareholders meeting minutes.</p>		<p>arbitrary requirements shall be imposed on shareholders to provide additional evidentiary documents beyond those showing eligibility to attend. Shareholders shall be granted reasonable time to deliberate each proposal and an appropriate opportunity to make statements.</p> <p>For a shareholders meeting called by the board of directors, it is advisable that the board chairperson chair the meeting, that a majority of the directors (including at least one independent director) and convener of the audit committee, and that at least one member of other functional committees attend as representative.</p> <p>Attendance details should be recorded in the shareholders meeting minutes.</p>	
Article 10	The Company shall place high importance on the shareholder right to know, and shall faithfully comply with applicable	Article 10	The Company shall place high importance on the shareholder right to know, and shall faithfully comply with applicable	Amended in accordance with the “Corporate Governance Best Practice

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
	<p>regulations regarding information disclosure in order to provide shareholders with regular and timely information on company financial conditions and operations, insider shareholdings, and corporate governance status through the MOPS or the website established by the Company.</p> <p>To treat all shareholders equally, it is advisable that the Company concurrently disclose the information under the preceding paragraph in English.</p> <p>To protect its shareholders' rights and interests and ensure their equal treatment, the Company shall adopt internal rules prohibiting company insiders from trading securities using information not disclosed to the market.</p>		<p>regulations regarding information disclosure in order to provide shareholders with regular and timely information on company financial conditions and operations, insider shareholdings, and corporate governance status through the MOPS or the website established by the Company.</p> <p>To treat all shareholders equally, it is advisable that the Company concurrently disclose the information under the preceding paragraph in English.</p> <p>To protect its shareholders' rights and interests and ensure their equal treatment, the Company shall adopt internal rules prohibiting company insiders from trading securities using information not disclosed to the market.</p> <p><u>The regulations in the preceding paragraph shall include the company's insiders' stock trading control measures from the date of learning of</u></p>	Principles for TWSE/TPEX Listed Companies”.

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
			<u>the company's financial reports or related performance content, including (but not limited to) directors shall not trade their shares during the 30 days before the announcement of the annual financial report and the 15 days before the announcement of the quarterly financial report.</u>	
Article 24	The Company shall appoint independent directors in accordance with its articles of incorporation. They shall be not less than two in number and not less than one fifth of the total number of directors. (The following parts are omitted)	Article 24	The Company shall appoint independent directors in accordance with its articles of incorporation. They shall be not less than two in number and not less than one fifth of the total number of directors. <u>The independent directors of the Company should not serve more than three consecutive terms.</u> (The following parts are omitted)	Amended in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”.
Article 49	The Company shall disclose and update from time to time the following information regarding corporate governance <del>in the fiscal year in accordance with laws and regulations</del>	Article 49	The Company's <u>website shall set up an area to disclose and update from time to time the following information regarding corporate governance:</u> <u>1. Board of Directors: e.g., the</u>	Amended in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
	<p>and TWSE or TPEX rules:</p> <p>1. Corporate governance framework and rules.</p> <p>2. Ownership structure and the rights and interests of shareholders, including specific and explicit dividend policy).</p> <p>3. Structure, professionalism and independence of the board of directors.</p> <p>4. Responsibility of the board of directors and managerial officers.</p> <p>5. Composition, duties and independence of the audit committee.</p> <p>6. Composition, duties and operation of the remuneration committee and other functional committees.</p> <p>7. The remuneration paid to the directors, general manager and vice general manager in the last two fiscal years, the analysis of the percentage of total remuneration to net profit after tax in the parent company only financial reports or individual financial reports, the policy,</p>		<p><u>resumes of board members and their powers and responsibilities, the diversity policy and implementation of board members.</u></p> <p><u>2. Functional committees: e.g., the resumes of the members of each functional committee and their responsibilities.</u></p> <p><u>3. Regulations related to corporate governance: e.g., the company's articles of association, the procedure for shareholders' meeting, and the charter of functional committees and other relevant corporate governance regulations.</u></p> <p><u>4. Important information related to corporate governance: e.g., information on setting up chief corporate governance officer.</u></p>	Companies”.

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
	<p><del>standard and package of remuneration payment, the procedure for determination of remuneration and the connection with the operation performance and future risk. Under special individual circumstances, remuneration of individual directors shall be disclosed.</del></p> <p><del>8. The progress of training of directors.</del></p> <p><del>9. The rights, relationships, avenues for complaint, concerns, and appropriate response mechanism regarding stakeholders.</del></p> <p><del>10. Details of the events subject to information disclosure required by law and regulations.</del></p> <p><del>11. The enforcement of corporate governance, differences between the corporate governance principles implemented by the Company and these Principles, and the reason for the differences.</del></p>			

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
	<p><del>12. Other information regarding corporate governance.</del></p> <p><del>The Company is advised, according to the actual performance of the corporate governance system, to disclose the plans and measures to improve its corporate governance system through appropriate mechanisms.</del></p>			



**Phison Electronics Corp. and Subsidiaries**  
**Information on Investment in Mainland China**  
**For the year ended December 31, 2022**

(Amounts in Thousands)

(1) The names of investees in Mainland China, the main businesses and products, and other information

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from January 1, 2022	Investment Flows		Accumulated Outflow of Investment from December 31, 2022	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2022	Note
					Outflow	Inflow								
Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	2(1)	182,825	-	-	182,825	(67,038)	100.00	100.00	(67,038)	91,477	-	Note 3
Hefei Ximpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	2(1)	-	-	-	-	(276,581)	24.23	24.23	(67,021)	81,685	-	
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,798,778	2(1) and 2(2)	442,780	-	-	442,780	(3,125,705)	39.04	42.63	(1,276,066)	3,252,782	-	

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2022	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2022	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2022	Note
					Outflow	Inflow								
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	43,520	2(3)	-	43,520	-	43,520	416	100.00	100.00	416	44,494	-	Note 3

(2) Limitation on investment in Mainland China

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

Note 1: Method of investment.

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

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

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



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## Independent Auditors' Report

To the Board of Directors of Phison Electronics Corp.:

### Opinion

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

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2022 and 2021, and its parent company only financial performance and its parent company only 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 Accountant and Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Key Audit Matters

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

#### 1. Revenue recognition

Please refer to Note 4(14) “Summary of significant accounting policies—Revenue recognition”, Note 6(22) “Description of significant accounts—Operating revenue” to the parent company only financial statements.

Description of key audit matter:

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



How the matter was addressed in our audit:

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

## 2. Valuation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

## **Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent company only 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 parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



## **Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the parent company only 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 Company'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 Company'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 parent company only 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this 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 a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

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

KPMG

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

#### **Notes to Readers**

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

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

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)  
Phison Electronics Corp.

Balance Sheets

December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
1100 Cash and cash equivalents (note 6(1))	\$ 15,212,590	26	17,075,707	28
1110 Financial assets at fair value through profit or loss—current (note 6(2))	674,253	1	1,096,736	2
1136 Financial assets at amortized cost—current (notes 6(3) and 8)	40,499	-	568,694	1
1170 Accounts receivable, net (note 6(5))	5,837,553	10	5,914,769	9
1180 Accounts receivable—related parties, net (notes 6(5) and 7)	1,269,856	2	2,813,524	4
1200 Other receivables (notes 6(6) and 7)	251,506	-	543,778	1
130X Inventories (note 6(7))	20,284,315	35	19,491,118	31
1410 Prepayments	62,288	-	18,213	-
1479 Other current assets	869	-	1,822	-
	<u>43,633,729</u>	<u>74</u>	<u>48,124,361</u>	<u>76</u>
<b>Non-current assets:</b>				
1510 Financial assets at fair value through profit or loss—non-current (note 6(2))	214,952	-	358,649	1
1517 Financial assets at fair value through other comprehensive income—non-current (note 6(4))	290,784	-	438,944	1
1550 Investments accounted for using the equity method (note 6(8))	6,363,641	11	6,502,466	10
1600 Property, plant and equipment (notes 6(10) and 7)	6,841,301	12	5,885,272	9
1755 Right-of-use assets (note 6(11))	113,124	-	57,174	-
1780 Intangible assets (note 6(12))	363,191	1	311,911	1
1840 Deferred tax assets (note 6(18))	844,136	1	495,176	1
1900 Other non-current assets (note 9(2))	6,965,511	1	583,614	1
	<u>15,667,640</u>	<u>26</u>	<u>14,633,206</u>	<u>24</u>
<b>Total assets</b>	<u>\$ 59,301,369</u>	<u>100</u>	<u>62,757,567</u>	<u>100</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
2100 Short-term borrowings (note 6(13))	\$ -	-	379,216	1
2130 Contract liabilities—current	146,323	-	203,044	-
2170 Accounts payable	5,292,802	9	5,832,288	9
2180 Accounts payable—related parties (note 7)	681,993	1	3,299,584	5
2200 Other payables (note 6(14))	8,650,018	15	9,698,997	15
2230 Tax payable	471,859	1	1,196,588	2
2280 Lease liabilities—current (note 6(11))	35,145	-	26,271	-
2399 Other current liabilities (notes 6(15), 7 and 9(3))	1,776,836	3	1,079,909	2
	<u>17,654,976</u>	<u>29</u>	<u>21,715,897</u>	<u>34</u>
<b>Non-current liabilities:</b>				
2530 Bonds payable (note 6(16))	3,442,031	6	3,412,855	6
2570 Deferred tax liabilities (note 6(18))	56,181	-	183,178	-
2580 Lease liabilities—non-current (note 6(11))	78,561	-	31,678	-
2640 Net defined benefit liabilities (note 6(17))	114,798	-	104,897	-
2645 Guarantee deposits received (note 9(3))	923,000	2	628	-
	<u>4,614,571</u>	<u>8</u>	<u>3,733,236</u>	<u>6</u>
<b>Total liabilities</b>	<u>21,669,547</u>	<u>37</u>	<u>25,449,133</u>	<u>40</u>
<b>Equity (notes 6(19) and (20)):</b>				
3100 Common shares	1,986,745	3	1,970,740	3
3200 Capital surplus	8,970,438	15	7,238,436	12
3300 Retained earnings	28,952,665	49	27,995,974	45
3400 Other equity interest	(216,810)	-	103,284	-
3500 Treasury shares	(2,061,216)	(4)	-	-
	<u>37,631,822</u>	<u>63</u>	<u>37,308,434</u>	<u>60</u>
<b>Total equity</b>	<u>\$ 59,301,369</u>	<u>100</u>	<u>62,757,567</u>	<u>100</u>
<b>Total liabilities and equity</b>	<u>\$ 59,301,369</u>	<u>100</u>	<u>62,757,567</u>	<u>100</u>

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)  
Phison Electronics Corp.

Statements of Comprehensive Income

For the years ended December 31, 2022 and 2021

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

	2022		2021	
	Amount	%	Amount	%
4000 <b>Operating revenue</b> (notes 6(22) and 7)	\$ 59,571,015	100	62,552,823	100
5000 <b>Operating costs</b> (notes 6(7), (23) and 7)	42,678,103	72	43,504,064	70
<b>Gross profit from operations</b>	16,892,912	28	19,048,759	30
5910 Unrealized profit on transactions with associates	17,277	-	(54,596)	-
5950 <b>Realized gross profit</b>	16,910,189	28	18,994,163	30
<b>Operating expenses</b> (notes 6(23) and 7):				
6100 Marketing expenses	1,176,667	2	1,045,844	2
6200 General and administrative expenses	894,714	1	779,391	1
6300 Research and development expenses	8,131,687	14	8,128,771	13
6450 Expected credit loss (note 6(5))	63,035	-	6,600	-
<b>Total operating expenses</b>	10,266,103	17	9,960,606	16
<b>Net operating income</b>	6,644,086	11	9,033,557	14
<b>Non-operating income and expenses:</b>				
7010 Other income (notes 6(9), (24) and 7)	169,715	-	93,092	-
7020 Other gains and losses (notes 6(9) and (24))	473,611	1	152,293	-
7050 Finance costs (note 6(24))	(31,625)	-	(15,359)	-
7100 Interest income (note 6(24))	83,945	-	27,869	-
7060 Shares of profit (loss) of subsidiaries and associates accounted for using the equity method (note 6(8))	(1,107,108)	(2)	297,189	1
	(411,462)	(1)	555,084	1
7900 <b>Profit before tax</b>	6,232,624	10	9,588,641	15
7950 <b>Income tax expenses</b> (note 6(18))	831,478	1	1,441,426	2
8200 <b>Net profit for the year</b>	5,401,146	9	8,147,215	13
8300 <b>Other comprehensive income (loss):</b>				
8310 <b>Items that will not be reclassified subsequently to profit or loss</b>				
8311 Remeasurements of defined benefit plans	(8,356)	-	(354)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(25))	(62,878)	-	134,692	-
8330 Shares of other comprehensive income of subsidiaries and associates accounted for using the equity method	(333,118)	-	251,977	-
8349 Income tax related to items that will not be reclassified subsequently (note 6(18))	1,671	-	71	-
<b>Total items that will not be reclassified subsequently to profit or loss</b>	(402,681)	-	386,386	-
8360 <b>Items that may be reclassified subsequently to profit or loss</b>				
8361 Exchange differences on translation of foreign financial statements	177,651	-	(106,472)	-
8399 Income tax related to items that may be reclassified subsequently (note 6(18))	(6,817)	-	-	-
<b>Total items that may be reclassified subsequently to profit or loss</b>	170,834	-	(106,472)	-
8300 <b>Other comprehensive income</b>	(231,847)	-	279,914	-
8500 <b>Total comprehensive income</b>	<u>\$ 5,169,299</u>	<u>9</u>	<u>8,427,129</u>	<u>13</u>
<b>Earnings per share</b> (New Taiwan Dollars) (note 6(21)):				
9750 Basic earnings per share	<u>\$ 27.71</u>		<u>41.34</u>	
9850 Diluted earnings per share	<u>\$ 26.06</u>		<u>40.09</u>	

See accompanying notes to parent company only financial statements.



(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)  
Phison Electronics Corp.

Statements of Changes in Equity  
For the years ended December 31, 2022 and 2021  
(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Capital surplus		Legal reserve	Retained earnings		Total	Exchange differences on translation of foreign financial statements	Total other equity: interest	Total equity
	Common shares	Advance receipts for share capital	Total share capital	Share capital		Special reserve	Unappropriated retained earnings				
<b>Balance at January 1, 2021</b>	1,970,740	-	1,970,740	6,388,173	4,386,531	176,125	22,381,739	36,763,895	(17,091)	(128,250)	85,145,469
Net profit for the year	-	-	-	-	-	-	8,147,215	8,147,215	-	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(283)	(283)	(106,472)	386,669	280,197
Total comprehensive income (loss) for the year	-	-	-	-	-	-	8,146,932	8,146,932	(106,472)	386,669	280,197
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	1,223,777	-	(1,223,777)	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	(20,557)	(20,557)	(6,503,442)	-	-	(6,503,442)
Reversal of special reserve	-	-	-	-	-	-	20,557	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	268,525	-	-	(422,983)	(422,983)	-	-	(154,458)
Share-based payments	-	-	-	281,369	-	-	-	-	-	-	281,369
Due to recognition of equity component of convertible bonds issued	-	-	-	102,369	-	-	-	-	-	-	102,369
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	11,572	11,572	(11,572)	-	-
<b>Balance at December 31, 2021</b>	1,970,740	-	1,970,740	7,238,436	5,530,308	155,568	22,310,098	27,995,974	(143,563)	246,847	37,308,434
Net profit for the year	-	-	-	-	-	-	5,401,146	5,401,146	-	-	5,401,146
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	(6,685)	170,834	(395,996)	(231,847)
Total comprehensive income for the year	-	-	-	-	-	-	5,394,461	5,394,461	170,834	(395,996)	(231,847)
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	817,193	-	(817,193)	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	(155,568)	(155,568)	(4,532,702)	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	-	-	155,568	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	1,012,124	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	360,211	-	-	-	-	-	-	360,211
Share-based payments	-	-	-	359,667	-	-	-	-	-	-	359,667
Exercise of employee share options	-	16,005	16,005	-	-	-	-	-	-	-	16,005
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	94,932	(94,932)	-	-
<b>Balance at December 31, 2022</b>	1,970,740	16,005	1,986,745	8,970,438	6,347,501	27,605,164	27,605,164	28,952,665	27,271	(244,081)	37,631,822

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)  
Phison Electronics Corp.

Statements of Cash Flows

For the years ended December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	2022	2021
<b>Cash flows from operating activities:</b>		
<b>Profit before income tax</b>	\$ 6,232,624	9,588,641
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	547,323	396,316
Amortization expense	392,465	270,812
Expected credit loss	63,035	6,600
Net loss (gain) on financial assets at fair value through profit or loss	282,398	(239,154)
Finance costs	31,625	15,359
Interest income	(83,945)	(27,869)
Dividend income	(90,937)	(61,691)
Share-based payments	355,849	278,593
Shares of (profit) of subsidiaries and associates accounted for using the equity method	1,107,108	(297,189)
Loss on disposal of property, plant and equipment	1,480	-
Gain on disposal of investments accounted for using the equity method	(30,426)	-
Unrealized profit (loss) on transactions with associates	(17,277)	54,596
Unrealized foreign exchange gain	(228,781)	(63,048)
Inventory obsolescence loss	1,671,654	135,858
Recognition (reversal) of refund liabilities	(111,852)	555,242
Profit from lease modification	(396)	(6)
Gain recognized in bargain purchase transaction	(16,289)	-
Total adjustments to reconcile profit (loss)	3,873,034	1,024,419
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	1,461,291	(2,748,924)
Other receivables	294,218	(264,803)
Inventories	(2,464,851)	(9,490,109)
Prepayments	(44,075)	24,708
Other current assets	953	30,951
Contract liabilities	(56,721)	167,491
Accounts payable (including related parties)	(3,128,004)	5,655,017
Other payables	(1,059,915)	1,788,741
Other current liabilities	(112,521)	(108,676)
Net defined benefit liability	1,545	1,015
Total changes in operating assets and liabilities	(5,108,080)	(4,944,589)
Cash inflow generated from operations	4,997,578	5,668,471
Interest paid	(2,837)	(14,350)
Income taxes paid	(2,037,310)	(590,006)
<b>Net cash flows from operating activities</b>	2,957,431	5,064,115

(Continued)

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)  
Phison Electronics Corp.

**Statements of Cash Flows (Continued)**

**For the years ended December 31, 2022 and 2021**

**(Expressed in Thousands of New Taiwan Dollars)**

	2022	2021
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(31,500)	(105,005)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	16,150	-
Acquisition of financial assets at amortized cost	(40)	(3,652,682)
Proceeds from disposal of financial assets at amortized cost	547,960	3,407,878
Proceeds from disposal of financial assets at fair value through profit or loss	377,473	4,337,537
Proceeds from capital reduction of financial assets at fair value through profit and loss	7,245	21,450
Acquisition of investments accounted for using the equity method	(147,251)	(44,750)
Proceeds from disposal of investments accounted for using the equity method	7,099	-
Proceeds from capital reduction of investments accounted for using the equity method	-	54,457
Acquisition of property, plant and equipment	(1,467,124)	(2,286,464)
Proceeds from disposal of property, plant and equipment	216	-
Increase in refundable deposits	(12,470)	(515,401)
Acquisition of intangible assets	(443,745)	(272,454)
Decrease (increase) in prepayments for equipment	8,417	(53,197)
Interest received	82,009	28,427
Dividends received	187,817	1,783,503
<b>Net cash flows from (used in) investing activities</b>	(867,744)	2,703,299
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	1,967,656	7,732,390
Decrease in short-term loans	(2,350,651)	(8,808,888)
Proceeds from issuing bonds (excluding issuance costs)	-	3,511,309
Increase in guarantee deposits received	1,659,592	141
Payment of lease liabilities	(36,160)	(21,098)
Cash dividends paid	(4,532,702)	(4,532,702)
Exercise of employee share options	375,672	-
Payments to acquire treasury shares	(2,061,216)	-
<b>Net cash flows used in financing activities</b>	(4,977,809)	(2,118,848)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	425,005	23,458
<b>Net increase (decrease) in cash and cash equivalents</b>	(2,463,117)	5,672,024
<b>Cash and cash equivalents at beginning of period</b>	17,675,707	12,003,683
<b>Cash and cash equivalents at end of period</b>	<b>\$ 15,212,590</b>	<b>17,675,707</b>

See accompanying notes to parent company only financial statements.

## **Representation Letter**

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

Company name: Phison Electronics Corp.

Chairman: Wee-Kuan Gan

Date: March 15, 2023



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## Independent Auditors' Report

To the Board of Directors of Phison Electronics Corp.:

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

#### 1. Revenue recognition

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



Description of key audit matter:

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

How the matter was addressed in our audit:

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

## 2. Valuation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

## Other Matter

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

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

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



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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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



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

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

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

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

KPMG

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

#### **Notes to Readers**

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

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



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

Consolidated Balance Sheets

December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2022		December 31, 2021		December 31, 2022		December 31, 2021	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Assets</b>								
<b>Current assets:</b>								
1100 Cash and cash equivalents (note 6(1))	\$ 17,033,769	29	19,040,947	30	2100			
1110 Financial assets at fair value through profit or loss—current (note 6(2))	785,022	1	1,206,954	2	2130	Short-term borrowings (notes 6(13) and 8)		
1136 Financial assets at amortized cost—current (notes 6(3) and 8)	40,499	-	506,694	1	2170	Contract liabilities—current	146,323	-
1170 Accounts receivable, net (note 6(5))	6,037,722	10	5,915,337	9	2180	Accounts payable	5,600,107	9
1180 Accounts receivable—related parties, net (notes 6(5) and 7)	1,199,073	2	2,813,524	4	2200	Accounts payable—related parties (note 7)	578,866	1
1200 Other receivables (notes 6(6) and 7)	333,902	1	623,912	1	2230	Other payables (note 6(14))	8,939,128	15
1220 Tax assets	3,497	-	2,905	-	2280	Tax payable	530,960	1
130X Inventories (note 6(7))	20,390,375	34	19,496,534	31	2320	Lease liabilities—current (note 6(11))	46,250	-
1410 Prepayments	69,271	-	24,967	-	2399	Long-term borrowings, current portion (note 6(16))	31,050	-
1479 Other current assets	1,455	-	2,413	-		Other current liabilities (notes 6(15), 7 and 9(3))	1,726,407	3
	45,894,585	77	49,696,587	78			17,599,091	29
<b>Non-current assets:</b>							21,827,193	36
1510 Financial assets at fair value through profit or loss—non-current (note 6(2))	317,347	-	451,569	1	2530	Bonds payable (note 6(17))	3,442,031	6
1517 non-current (note 6(4))	431,697	1	634,757	1	2540	Long-term borrowings (note 6(16))	133,882	-
1550 Investments accounted for using the equity method (note 6(8))	3,693,963	6	4,155,042	7	2580	Deferred tax liabilities (note 6(19))	56,206	-
1755 Rights-of-use assets (note 6(11))	7,597,761	13	6,650,562	11	2645	Lease liabilities—non-current (note 6(11))	85,526	-
1780 Intangible assets (note 6(12))	130,076	-	39,276	-		Net defined benefit liabilities (note 6(18))	114,798	-
1840 Deferred tax assets (note 6(19))	889,157	1	495,193	1		Guarantee deposits received (note 9(3))	926,480	2
1900 Other non-current assets (note 9(2))	659,214	1	583,700	1			4,758,923	8
	14,095,251	23	13,324,770	22			22,358,014	37
<b>Total assets</b>	\$ 59,989,836	100	63,021,357	100			1,986,745	3
					3100	Common shares	8,970,438	15
					3200	Capital surplus	28,932,665	48
					3300	Retained earnings	(2,16,810)	-
					3400	Other equity interest	(2,061,216)	(3)
					3500	Treasury shares	57,631,822	63
						<b>Total equity</b>	37,308,434	59
						<b>Total liabilities and equity</b>	\$ 59,989,836	100
							63,021,357	100

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2022 and 2021

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

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

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
Phison Electronics Corp. and subsidiaries  
Consolidated Statements of Changes in Equity  
For the years ended December 31, 2022 and 2021  
(Expressed in Thousands of New Taiwan Dollars)

	Share capital			Retained earnings			Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Treasury shares	Total equity
	Common shares	Total share capital	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve					
<b>Balance at January 1, 2021</b>	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	1,970,740	1,970,740	6,586,173	4,306,531	-	-	8,147,215	(106,472)	386,669	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	-	-	8,147,215	(106,472)	386,669	-	8,147,215
Total comprehensive income (loss) for the year	-	-	-	-	-	-	8,147,215	(106,472)	386,669	-	8,147,215
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	-	-	(283)	(106,472)	-	-	(106,755)
Cash dividends of common shares	-	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	1,223,777	-	(1,223,777)	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	-	-	-	(6,503,442)	-	-	-	(6,503,442)
Share-based payments	-	-	-	-	-	(20,557)	20,557	-	-	-	-
Due to recognition of equity component of convertible bonds issued	-	-	-	268,525	-	-	(422,983)	-	-	-	(154,458)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	281,369	-	-	-	-	-	-	281,369
<b>Balance at December 31, 2021</b>	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	1,970,740	1,970,740	7,238,436	5,530,308	-	155,568	22,310,098	(143,563)	246,847	-	37,308,434
Other comprehensive income (loss) for the year	-	-	-	-	-	-	5,401,146	(170,834)	(395,996)	-	5,401,146
Total comprehensive income (loss) for the year	-	-	-	-	-	-	5,401,146	(170,834)	(395,996)	-	5,401,146
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	-	-	(817,193)	-	-	-	(817,193)
Cash dividends of common shares	-	-	-	-	-	-	(4,532,702)	-	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	-	-	(155,568)	-	-	-	(155,568)
Changes in equity of associates accounted for using the equity method	-	-	-	-	-	-	1,012,124	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	360,211	-	-	-	360,211
Exercise of employee share options	-	-	16,005	359,667	-	-	-	-	-	-	375,672
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	-	(94,932)	-	-
<b>Balance at December 31, 2022</b>	1,970,740	1,986,745	8,970,438	6,347,501	-	22,005,164	28,952,665	272,721	(244,081)	(2,061,216)	37,631,822

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2022 and 2021**

**(Expressed in Thousands of New Taiwan Dollars)**

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

(Continued)

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows (Continued)**

**For the years ended December 31, 2022 and 2021**

**(Expressed in Thousands of New Taiwan Dollars)**

	2022	2021
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(95,113)	(174,972)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	16,150	-
Acquisition of financial assets at amortized cost	(40)	(3,652,682)
Proceeds from disposal of financial assets at amortized cost	547,960	3,407,878
Acquisition of financial assets at fair value through profit or loss	(4,265)	(203,338)
Proceeds from disposal of financial assets at fair value through profit or loss	377,473	4,721,119
Proceeds from capital reduction of financial assets at fair value through profit or loss	7,245	21,450
Net cash flow from acquisition of subsidiaries	(24,547)	-
Proceeds from capital reduction of investments accounted for using the equity method	-	54,457
Acquisition of property, plant and equipment	(1,528,412)	(2,340,904)
Proceeds from disposal of property, plant and equipment	5,040	-
Increase in refundable deposits	(14,550)	(514,336)
Acquisition of intangible assets	(451,643)	(272,624)
Decrease (increase) in prepayments for equipment	1,177	(50,038)
Interest received	96,089	36,777
Dividends received	90,937	166,365
<b>Net cash flows from (used in) investing activities</b>	<b>(976,499)</b>	<b>1,199,152</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	1,967,656	7,822,390
Decrease in short-term loans	(2,410,651)	(8,866,888)
Repayments of long-term borrowings	(30,704)	(30,486)
Proceeds from issuing bonds (excluding issuance costs)	-	3,511,309
Increase (decrease) in guarantee deposits received	1,659,591	(877)
Payment of lease liabilities	(47,989)	(21,392)
Cash dividends paid	(4,532,738)	(4,532,702)
Exercise of employee share options	375,672	-
Payments to acquire treasury shares	(2,061,216)	-
<b>Net cash flows used in financing activities</b>	<b>(5,080,379)</b>	<b>(2,118,646)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>477,984</b>	<b>(97,911)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,007,178)</b>	<b>4,079,825</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>19,040,947</b>	<b>14,961,122</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17,033,769</b>	<b>19,040,947</b>

See accompanying notes to consolidated financial statements.

## Phison Electronics Corporation The 10th List of Candidates for Directors

Name of Directors Candidates (Gender)	Education	Major Past Positions	Current Positions	The representative name of the legal entity or government office	Current shareholding as of April 2, 2023 (shares)
Wee Kuan Gan (M)	Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University	Vice President of Phison Electronics Corporation	Chairman of Phison Electronics Corporation Vice President of Phison Electronics Corporation	Cheng He Investment Co., Ltd	2,403,000
Chee Kong Aw Yong (M)	Master of Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University	Founder of Phison Electronics Corporation President of Phison Electronics Corporation	President of Phison Electronics Corporation	NA	3,498,000
Tzung Horng Kuang (M)	Master of Business Administration, Greenwich University	Kogen Singapore Pte Ltd Vice President of Phison Electronics Corporation	Director of Phison Electronics Corporation	NA	1,438,736
Chiu An Chuang (M)	Primary school graduation	Director of Taiwan Shin Yu Industrial Co., Ltd. President of Thailand Shin Yu Industrial Co., Ltd. Chairman of the 28th Mediation Committee of Jhushan Town, Nantou	Political Adviser of the Executive Yuan	Cheng Shuo Investment Limited	1,158,000

Name of Directors Candidates (Gender)	Education	Major Past Positions	Current Positions	The representative name of the legal entity or government office	Current shareholding as of April 2, 2023 (shares)
Jiunn Yeong Yang (M)	Ph.D. of Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University	County Chairman of the Management Committee of Jhushan Zi Nan Temple Founder of Phison Electronics Corporation	NA	NA	4,549,114
Hiroshi Miyauchi (M)	The University of Electro-Communications, Bachelor	Toshiba Corporation, Director & General Manager of Intellectual Property Division Toshiba Corporation, R&D Technology Division, Chief Fellow	Toshiba Materials Corporation, Party-time employee Kioxia Corporation, Part-time employee Toshiba Electronic Devices & Storage Corporation, Party-time employee Meiko Electronics Co. Ltd., Audit & Supervisory Board Member (outside)	Trusted Investment Account of KIOXIA Corporation by First Bank	19,821,112

(Continued)

## Phison Electronics Corporation The 10th List of Candidates for Independent Directors

Name of Independent Directors Candidates (Gender)	Education	Major Past Positions	Current Positions	Has it served for three consecutive independent directors	Reasons for continuing to nominate independent directors who have served three consecutive terms	Current shareholding as of April 2, 2023 (shares)
Chen Wei Wang (M)	Department of Electronics Engineering, National Yang Ming Chiao Tung University	CEO of Quanta Computer Inc. President of Quanta Computer Inc.	Independent director of Simplo Technology Co. Ltd. Independent director of Pegatron Corporation	Yes	After evaluation by the board of directors, Mr. Chen Wei Wang has rich experience in business management and international business in the industry, and has an international outlook and judgment on the development of the technology industry. He has participated in the board of directors in the past and can provide effective and important suggestions for the company. In the future, the company still needs to rely on Mr. Chen Wei Wang's industrial experience to supervise the board of directors and provide suggestions for the company's future operations.	0



Name of Independent Directors Candidates (Gender)	Education	Major Past Positions	Current Positions	Has it served for three consecutive independent directors	Reasons for continuing to nominate independent directors who have served three consecutive terms	Current shareholding as of April 2, 2023 (shares)
Yu Lun Huang (F)	Ph.D., Department of Computer Science and Information Engineering, National Yang Ming Chiao Tung University	Dean of Vice Academic Affairs, National Chiao Tung University Associate Professor, Department of Electrical	Dean of school hire Vice Academic Affairs, National Yang Ming Chiao Tung University Associate Professor, Department of	None	It is believed that Mr. Chen Wei Wang can continue to have independence and the ability to judge impartially to perform the duties of an independent director to supervise the board of directors and provide professional advice. Therefore, it is proposed to nominate Mr. Chen Wei Wang as an independent director candidate this time.	0

Name of Independent Directors Candidates (Gender)	Education	Major Past Positions	Current Positions	Has it served for three consecutive independent directors	Reasons for continuing to nominate independent directors who have served three consecutive terms	Current shareholding as of April 2, 2023 (shares)
Huei Ming Wang (M)	Master of Industrial Management from Chung Hua University	Engineering, National Yang Ming Chiao Tung University	Electrical Engineering, National Yang Ming Chiao Tung University Consultant of Taiwan Open Course and Education Consortium	None	Not Applicable	0

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

Name	Positions of other company
Trusted Investment Account of KIOXIA Corporation by First Bank	KIOXIA Semiconductor Taiwan Corporation Director
	KIOXIA Taiwan Corporation Director
	MicroTops Design Corporation Director

# Appendices

## **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 the Company.

Article 1-1: The shareholders' meetings of the Company may be convened by means of physical meeting, visual communication network or other methods promulgated by the central competent authority.

If the shareholders' meeting is held through visual communication, shareholders, an issuer's proxy solicitors, and proxy agents (hereinafter referred to as "shareholders") who wish to attend the meeting online shall register with the Company two days before the meeting date. The shareholders taking part in such a visual communication meeting shall be deemed to have attended the meeting in person.

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 attending number of shares on the platform of the visual communication network, 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. The restrictions on the place of the meeting shall not apply when the Company convenes a virtual shareholders meeting.

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.

Where a shareholders meeting is held online, the Company shall keep records of shareholder registration, sign-in, check-in, questions raised, votes cast and results of votes counted by the Company, and continuously audio and video record, without interruption, the proceedings of the virtual meeting from beginning to end.

The information and audio and video recording in the preceding paragraph shall be properly kept by the Company during the entirety of its existence, and copies of the audio and video recording shall be provided to and kept by the party appointed to handle matters of the virtual meeting.

In case of a virtual shareholders meeting, the Company is advised to audio and video record the back-end operation interface of the virtual meeting platform.

Article 6: When a majority of the shareholders present, who represent more than one-half of the total number of voting shares, the meeting Chairman 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 Chairman may postpone the time for the meeting. But the number of postponements shall be limited to two and the total delay time shall not exceed one hour. If the quorum is still not met after two postponements but shareholders representing more than one-third of the total issued shares are present, 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 Chairman may put the tentative resolutions already passed to the Shareholders' resolution again in accordance with Article 174 of the Company Act. If the shareholders' meeting is held through visual communication, shareholders who wish to attend the meeting online shall re-register with the Company two days before the meeting date.

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.

Changes to how the Company convenes its shareholders' meeting shall be resolved by the board of directors, and shall be made no later than mailing of the shareholders' meeting notice.

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 chairman shall not declare the meeting closed unless a resolution is passed.

After a meeting closed, shareholders may not elect another meeting Chairman to continue the proceeding of the meeting at the same or a new place, provided that, if the meeting Chairman declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of meetings, a new meeting Chairman 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 Chairman shall preside over the meeting. If the Chairman is on leave or unable to attend the meeting, the vice Chairman shall chair the meeting. If there is no vice Chairman or the vice Chairman is also on leave or unable to attend, the Chairman shall designate a managing director to chair the meeting. If there is no managing director, a director shall be designated. If the Chairman 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 Chairman at that meeting.

Article 8-1: When the Company convenes a virtual-only shareholders meeting, both the chair and secretary shall be in the same location, and the chair shall declare the address of their location when the meeting is called to order.



Article 8-2: When the Company convenes a virtual shareholders meeting, it shall include the items stipulated in the Regulations Governing the Administration of Shareholder Services of Public Companies in the shareholders' meeting notice.

Article 9: During the meeting, the meeting Chairman 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 Chairman 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 Chairman.

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 Chairman, 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 13-1: Where a virtual shareholders' meeting is convened, shareholders attending the virtual meeting online may raise questions in writing at the virtual meeting platform from the chair declaring the meeting open until the chair declaring the meeting adjourned. No more than two questions for the same proposal may be raised. Each question shall contain no more than 200 words. The regulations in Articles 11 and 12 do not apply. As long as

questions so raised are not in violation of the regulations or beyond the scope of a proposal, it is advisable that the questions be disclosed to the public on the virtual meeting platform.

Article 14: When the speech of any shareholder is too long or outside the scope of the agenda item, the meeting Chairman may stop their speech. The meeting Chairman may command shareholders who disobey the meeting Chairman's correction and impede the process of the meeting to leave the meeting venue.

Article 15: As the meeting Chairman 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. At the time of a vote, for each proposal, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders, followed by a poll of the shareholders. After the conclusion of the meeting, on the same day it is held, the results for each proposal, based on the numbers of votes for and against and the number of abstentions, shall be entered into the MOPS.

Article 17: Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the meeting Chairman, 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 Chairman 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 Chairman. When the Company convenes a virtual shareholders' meeting, after the chair declares the meeting open, shareholders attending the meeting online shall cast votes on proposals and elections on the virtual meeting platform before the chair announces the voting session ends or will be deemed abstained from voting.

In the event of a virtual shareholders' meeting, votes shall be counted one at a time after the chair announces the voting session ends, and results of votes and elections shall be announced immediately.

Article 18-1: In the event of a virtual shareholders' meeting, the Company shall disclose real-time results of votes and election immediately after the end of the voting session on the virtual meeting platform according to the regulations, and this disclosure shall continue at least 15 minutes after the chair has announced the meeting adjourned.

Article 18-2: In the event of a virtual shareholders' meeting, when declaring the meeting open, the chair shall also declare, unless under a circumstance where a meeting is not required to be postponed to or resumed at another time under Article 44-20, paragraph 4 of the Regulations Governing the Administration of Shareholder Services of Public Companies, if the virtual meeting platform or participation in the virtual meeting is obstructed due to natural disasters, accidents or other force majeure events before the chair has announced the meeting adjourned, and the obstruction continues for more than 30 minutes, the meeting shall be postponed to or resumed on another date within five days, in which case Article 182 of the Company Act shall not apply.

For a meeting to be postponed or resumed as described in the preceding paragraph, shareholders who have not registered to participate in the affected shareholders' meeting online shall not attend the postponed or resumed session.

For a meeting to be postponed or resumed under the first paragraph, the number of shares represented by, and voting rights and election rights

exercised by the shareholders who have registered to participate in the affected shareholders' meeting and have successfully signed in the meeting, but do not attend the postpone or resumed session, at the affected shareholders' meeting, shall be counted towards the total number of shares, number of voting rights and number of election rights represented at the postponed or resumed session.

During a postponed or resumed session of a shareholders' meeting held under the first paragraph, no further discussion or resolution is required for proposals for which votes have been cast and counted and results have been announced, or list of elected directors.

When the Company convenes a hybrid shareholders' meeting, and the virtual meeting cannot continue as described in the first paragraph, if the total number of shares represented at the meeting, after deducting those represented by shareholders attending the virtual shareholders' meeting online, still meets the minimum legal requirement for a shareholders' meeting, then the shareholders' meeting shall continue, and not postponement or resumption thereof under the first paragraph is required.

Under the circumstances where a meeting should continue as in the preceding paragraph, the shares represented by shareholders attending the virtual meeting online shall be counted towards the total number of shares represented by shareholders present at the meeting, provided these shareholders shall be deemed abstaining from voting on all proposals on meeting agenda of that shareholders' meeting.

When postponing or resuming a meeting according to the first paragraph, the Company shall handle the preparatory work based on the date of the original shareholders' meeting in accordance with the requirements listed under Article 44-20, paragraph 7 of the Regulations Governing the Administration of Shareholder Services of Public Companies.

Article 18-3: When convening a virtual-only shareholders meeting, the Company shall provide appropriate alternative measures available to shareholders with difficulties in attending a virtual shareholders' meeting online.

Article 19: The meeting Chairman 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.

The third amendment was made on May 24, 2022.

## **Phison Electronics Corporation Procedures of Election of Directors**

Article 1: Except as otherwise provided by law and regulation or by this Corporation's articles of incorporation, elections of directors shall be conducted in accordance with these Procedures.

Article 2: The overall composition of the board of directors shall be taken into consideration in the selection of this Corporation's directors. The composition of the board of directors shall be determined by taking diversity into consideration and formulating an appropriate policy on diversity based on the company's business operations, operating dynamics, and development needs. It is advisable that the policy include, without being limited to, the following two general standards:

1. Basic requirements and values: Gender, age, nationality, and culture.
2. Professional knowledge and skills: A professional background (e.g., law, accounting, industry, finance, marketing, technology), professional skills, and industry experience.

Each board member shall have the necessary knowledge, skill, and experience to perform their duties; the abilities that must be present in the board as a whole are as follows:

1. The ability to make judgments about operations.
2. Accounting and financial analysis ability.
3. Business management ability.
4. Crisis management ability.
5. Knowledge of the industry.
6. An international market perspective.
7. Leadership ability.
8. Decision-making ability.

More than half of the directors shall be persons who have neither a spousal relationship nor a relationship within the second degree of kinship with any other director.

The board of directors of this Corporation shall consider adjusting its composition based on the results of performance evaluation.

Article 3: The qualifications for the independent directors of this Corporation shall comply with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies and Article 24 of the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies.

Article 4: Elections of both directors at this Corporation shall be conducted in accordance with the candidate nomination system and procedures set out in Article 192-1 of the Company Act.

When the number of directors falls below five due to the dismissal of a director for any reason, this Corporation shall hold a by-election to fill the vacancy at its next shareholders meeting. When the number of directors falls short by one third of the total number prescribed in this Corporation's articles of incorporation, this Corporation shall call a special shareholders meeting within 60 days from the date of occurrence to hold a by-election to fill the vacancies.

When the number of independent directors falls below that required under the proviso of Article 14-2, paragraph 1 of the Securities and Exchange Act, a by-election shall be held at the next shareholders meeting to fill the vacancy. When the independent directors are dismissed en masse, a special shareholders meeting shall be called within 60 days from the date of occurrence to hold a by-election to fill the vacancies

Article 5: The election of the Company's directors adopts a cumulative ballot system. The number of voting rights represented by each share shall be the same as the number of directors to be elected and may be consolidated for the election of one director candidate or split for the election of multiple director candidates.

Article 6: For the election of the Company's directors, the Board of Directors shall prepare ballots in the same number of the directors to be elected, specify the number of voting rights associated with each ballot, and distribute them to the shareholders attending the shareholders' meeting. Attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders.

Article 7: The number of Directors will be as specified in the Company's Articles of Association, with voting rights separately calculated for Independent and Non-Independent Director positions. Those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes received. 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 Chairman drawing lots on behalf of any person not in attendance.

Article 8: Before the beginning of the election, the Chairman shall designate a number of shareholders to supervise the casting of the ballots and count the ballots, each of which shall then respectively perform their relevant functions accordingly. The Board of Directors shall prepare a ballot box for the election of directors, which shall be examined in public by the persons supervising the casting of ballots before

the ballots are cast

Article 9: If a candidate is a shareholder, the person casting the vote shall specify the candidate's account name and number in the "candidate" column of the ballot; if the candidate is not a shareholder, the person casting the vote shall specify the candidate's name and identity card number. However, if the candidate is a governmental entity or corporate shareholder, for the account name, the person casting the vote shall enter the name of the governmental entity or corporate shareholder in the "candidate" column of the ballot, and may in addition specify the name of the representative of the governmental entity or corporate shareholder. When there are multiple representatives, the name of each representative shall be indicated.

Article 10: 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. In case the candidate whose name is entered in the ballot is a shareholder, but the candidate's name, 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 not a shareholder, and the candidate's name and identity card number do not conform with the director candidate list after a cross-check.
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 11: 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 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 12: The board of directors of the Company shall issue notifications to the persons elected as directors.

Article 13: 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, and 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\$3.0 billion, divided into 300 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\$290 million was reserved, and the shares were divided into 29 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: If the Company plans to repurchase its own shares and transfer them 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 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 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.

The shareholders' meeting of the Company may be held by means of visual communication network or other methods promulgated by the central competent authority. In case a shareholders' meeting is proceeded via visual communication network, the shareholders taking part in such a visual communication meeting shall be deemed to have attended the meeting in person.

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' Meeting shall be convened by the board of directors and chaired by the Chairman of the Board. When the Chairman of the Board is on leave, the Chairman shall appoint one of the directors to act as meeting Chairman, or, if there are no appointment, one of the directors shall be selected from among

themselves to act as meeting Chairman. 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 Chairman 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.

#### Chapter IV: Directors and Board of directors

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 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 has established the audit committee. Its 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.

Article 14: The board of directors is formed by the directors. The Chairman, 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 Chairman 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 Chairman 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 on his/her behalf, he/she shall, in each time, issue a written proxy and state 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.

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. The Company’s board of directors was convened in writing, e-mail, or fax method.

Article 16: Compensations for the Chairman and directors of the Company shall be determined by the board of directors according the involvement and contribution of the Chairman and 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.

#### 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. 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' 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 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.

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 its conditions and allocation method.

Article 19-1: The annual earnings in the financial statements of the Company shall first be allocated to pay income tax and offset the accumulated losses of the preceding years before allocating 10% of the remaining earnings to the legal reserve, which is not applicable where the legal reserve has reached the total paid-in capital of the Company. In accordance with law or the competent authority, the Company shall also appropriate or reverse special reserves. With regard to the earnings and accumulated undistributed earnings, the Board of Directors shall submit an earnings distribution proposal to distribute dividends to shareholders, subject to the approval at the shareholders' meeting.

Where the above earnings, legal reserves, and capital reserves are distributed in cash, the Board of Directors is authorized to approve the distribution by a resolution approved by a majority vote at a meeting attended by over two-thirds of the Directors and report to the shareholders' meeting. Where they are distributed by issuing new shares, it shall be resolved at the shareholders' meeting.

Profit distribution or loss appropriation of the Company may be made upon the conclusion of every half fiscal year. When distributing earnings, the Company shall first estimate and retain the tax to be made, offset the accumulated losses, estimate and retain the employees' and directors' remuneration pursuant to

paragraph, Article 19, before allocating 10% of the remaining earnings to the legal reserve, which is not applicable where the legal reserve has reached the total paid-in capital of the Company. In accordance with law or the competent authority, the Company shall also appropriate or reverse special reserves. With regard to the earnings and accumulated undistributed earnings, the Board of Directors shall submit an earnings distribution proposal. Where the earnings are distributed in cash, the Board of Directors is authorized to approve the distribution by a resolution approved by a majority vote at a meeting attended by over two-thirds of the Directors and report to the shareholders' meeting. Where they are distributed by issuing new shares, it shall be resolved at the shareholders' meeting.

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

#### 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.

The eighth amendment was made on June 15, 2004.

The ninth amendment was made on March 17, 2005.

The tenth amendment was made on June 16, 2005.



The eleventh amendment was made on June 14, 2006.  
The twelfth amendment was made on November 1, 2006.  
The thirteenth amendment was made on June 13, 2007.  
The fourteenth amendment was made on June 13, 2008.  
The fifteenth amendment was made on May 8, 2009.  
The sixteenth amendment was made on June 15, 2010.  
The seventeenth amendment was made on June 15, 2011.  
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-third amendment was made on June 12, 2019.  
The twenty-four amendment was made on June 3, 2020.  
The twenty-fifth amendment was made on July 26, 2021.  
The twenty-sixth amendment was made on May 24, 2022.

## **Phison Electronics Corporation Corporate Governance Best Practice Principles ( Before Amendment )**

### **Chapter I General Principles**

#### Article 1

To establish sound corporate governance systems and promote sound development of the securities market, Phison Electronics Corporation (“the Company”) promulgates the corporate governance principles (“the Principles”) with reference to Corporate Governance Best Practice Principles for TWSE/TPEX Listed companies.

#### Article 2

When setting up the corporate governance system, in addition to complying with relevant laws, regulations, articles of incorporation, contracts signed with the TWSE or TPEX, and other relevant regulations, the Company shall follow the following principles:

1. Protect the rights and interests of shareholders.
2. Strengthen the powers of the board of directors.
3. Fulfill the function of supervisors.
4. Respect the rights and interests of stakeholders.
5. Enhance information transparency.

#### Article 3

The Company shall follow the Criteria Governing Establishment of Internal Control Systems by Public Reporting Companies and take into consideration the overall operational activities of itself and its subsidiaries to design and fully implement an internal control system, in order to ensure the continued effectiveness of its design and implementation in light of changes in the company’s internal and external environment.

The Company conduct internal audit and establish internal audit department under the board of directors, for assisting the board of directors to evaluate problems of the internal control system, assess the efficiency of its operations, and make timely recommendations for improvements, to ensure that the system can operate effectively on an on-going basis, and be used as a basis for reviewing and correcting the internal control system.

Any Appointment, dismissal of chief internal auditors shall be subjected to approval by the audit committees and be submitted to the board of directors for a resolution. In the event that the said matter has not been approved by the audit committee, it may be adopted with the consent of two-thirds or more of all directors, and the resolutions of the audit committees shall be noted in the minutes of the directors meeting.

#### Article 3-1

The Company is advised to have an adequate number of corporate governance personnel with appropriate qualifications based on the size of the Company, business situations and management needs, and shall appoint in accordance with the requirements of the competent authorities, TWSE or TPEX a chief corporate governance officer as the most senior officer to be in charge of corporate governance affairs. Said officer shall be a qualified, practice-eligible lawyer or accountant or have been in a managerial position for at least three years in a securities, financial, or futures related institution or a public company in handling legal affairs, legal compliance, internal audit, financial affairs, stock affairs, or corporate governance affairs.

It is required that the corporate governance affairs mentioned in the preceding paragraph include at least the following items:

1. Producing minutes of board meetings and shareholders meetings
2. Assisting in onboarding and continuous development of directors
3. Furnishing information required for business execution by directors
4. Assisting directors with legal compliance
5. Other matters set out in the articles of incorporation or contracts

## **Chapter II Protection of Shareholders' Rights and Interests**

### **Section 1 Encouraging Shareholders to Participate in Corporate Governance**

#### Article 4

The Company's corporate governance system shall be designed to protect shareholders' rights and interests and treat all shareholders equitably.

The Company shall establish a corporate governance system which ensures shareholders' rights of being fully informed of, participating in and making decisions over important matters of the Company.

#### Article 5

The Company shall convene shareholders meetings in accordance with the Company Act and relevant laws and regulations, and provide comprehensive rules for such meetings. The Company shall faithfully implement resolutions adopted by shareholders meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders meetings of the Company shall comply with laws, regulations and articles of incorporation.

#### Article 6

The board of directors of the Company shall properly arrange the agenda items and procedures for shareholders meetings, and formulate the principles and procedures for shareholder nominations of directors and submissions of shareholder proposals. The board shall also properly handle the proposals duly submitted by shareholders. Arrangements shall be made to hold shareholders meetings at a convenient location, with sufficient time allowed and sufficient numbers of suitable personnel assigned to handle attendance registrations. No arbitrary requirements shall be imposed on shareholders to provide additional evidentiary documents beyond those showing eligibility to attend. Shareholders shall be granted reasonable time to deliberate each proposal and an appropriate opportunity to make statements.

For a shareholders meeting called by the board of directors, it is advisable that the board chairperson chair the meeting, that a majority of the directors (including at least one independent director) and convener of the audit committee, and that at least one member of other functional committees attend as representative. Attendance details should be recorded in the shareholders meeting minutes.

#### Article 7

The Company shall encourage its shareholders to actively participate in corporate governance, it is advisable for the company to engage a professional shareholder services agent to handle shareholders meeting matters, so that shareholders meetings can proceed on a legal, effective and secure basis. The Company shall seek all ways and means, including fully exploiting technologies for information disclosure, to upload annual reports, annual financial statements, notices, agendas and supplementary information of shareholders meetings in both Chinese and English concurrently, and shall adopt electronic voting, in order to enhance shareholders' attendance rates at shareholders meetings and ensure their exercise of rights at such meetings in accordance with laws.

It is advisable for the Company to avoid raising extraordinary motions and amendments to original proposals at a shareholders meeting.

It is advisable for the Company to arrange for their shareholders to vote on each separate proposal in the shareholders meeting agenda, and following conclusion of the meeting, to enter the voting results the same day, namely the numbers of votes cast for and against and the number of abstentions, on the Market Observation Post System.

#### Article 8

The Company, in accordance with the Company Act and other applicable laws and regulations, shall record in the shareholders meeting minutes the date and place of the meeting, the name of the chairperson, the method of adopting resolutions, and a summary of the essential points of the proceedings and the results of the meeting. With respect to the election of directors, the meeting minutes shall record the method of voting adopted therefore and the total number of votes for the elected directors.

The shareholders meeting minutes shall be properly and perpetually kept by the Company during its legal existence, and should be sufficiently disclosed on the Company's website.

#### Article 9

The chairperson of the shareholders meetings shall be fully familiar and comply with the rules governing the proceedings of the shareholders meetings established by the Company. The chairperson shall ensure the proper progress of the proceedings of the meetings and may not adjourn the meetings at will.

In order to protect the interests of most shareholders, if the chairperson declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of the shareholders meetings, it is advisable for the members of the board of directors other than the chairperson of the shareholders meeting to promptly assist the attending shareholders at the shareholders meeting in electing a new chairperson of the shareholders meeting to continue the proceedings of the meeting, by a resolution to be adopted by a majority of the votes represented by the shareholders attending the said meeting in accordance with the legal procedures.

#### Article 10

The Company shall place high importance on the shareholder right to know, and shall faithfully comply with applicable regulations regarding information disclosure in order to

provide shareholders with regular and timely information on company financial conditions and operations, insider shareholdings, and corporate governance status through the MOPS or the website established by the Company.

To treat all shareholders equally, it is advisable that the Company concurrently disclose the information under the preceding paragraph in English.

To protect its shareholders' rights and interests and ensure their equal treatment, the Company shall adopt internal rules prohibiting company insiders from trading securities using information not disclosed to the market.

#### Article 11

The shareholders shall be entitled to profit distributions by the Company. In order to ensure the investment interests of shareholders, the shareholders meeting may, pursuant to Article 184 of the Company Act, examine the statements and books prepared and submitted by the board of directors and the reports submitted by the audit committee, and may decide profit distributions and deficit off-setting plans by resolution. In order to proceed with the above examination, the shareholders meeting may appoint an inspector.

The shareholders may, pursuant to Article 245 of the Company Act, apply with the court to select an inspector in examining the accounting records, assets, particulars, documents and records of specific transaction of the Company.

The board of directors, audit committee, and managers of the Company shall fully cooperate in the examination conducted by the inspectors in the aforesaid two paragraphs without any circumvention, obstruction or rejection.

#### Article 12

In entering into material financial and business transactions such as acquisition or disposal of assets, lending funds, and making endorsements or providing guarantees, the Company shall proceed in accordance with the applicable laws and/or regulations and establish operating procedures in relation to these material financial and business transactions which shall be reported to and approved by the shareholders meeting so as to protect the interests of the shareholders.

When the Company is involved in a merger, acquisition or public tender offer, in addition to proceeding in accordance with the applicable laws and/or regulations, it shall not only pay attention to the fairness, rationality, etc. of the plan and transaction of the merger, acquisition or public tender offer, but information disclosure and the soundness of the company's financial structure thereafter.

The relevant personnel of the Company handling the matters in the preceding paragraph shall pay attention to the occurrence of any conflicts of interest and the need for recusal.

#### Article 13

In order to protect the interests of the shareholders, it is advisable that the Company designate personnel exclusively dedicated to handling shareholder proposals, inquiries, and disputes.

The Company shall properly deal with any legal action duly instituted by shareholders in which it is claimed that shareholder rights and interests were damaged by a resolution adopted at a shareholders meeting or a board of directors meeting in violation of applicable laws, regulations, or the Company's articles of incorporation, or that such damage was caused by a breach of applicable laws, regulations or the Company's articles of incorporation by any directors, managers in performing their duties.

It is advisable that the Company adopt internal procedures for appropriate handling of matters referred to in the preceding two paragraphs, and that it keep relevant written records for future reference.

### **Section 2 Establishing a Mechanism for Interaction with Shareholders**

#### Article 13-1

The board of directors of the Company is responsible for establishing a mechanism for interaction with shareholders to enhance mutual understanding of the development of the Company's objectives.

#### Article 13-2

In addition to communicating with shareholders through shareholders meetings and encouraging shareholders to participate in such meetings, the board of directors of the Company together with officers and independent directors shall engage with shareholders in an efficient manner to ascertain shareholders' views and concerns, and expound company policies explicitly, in order to gain shareholders' support.

### **Section 3 Corporate Governance Relationships Between the Company and Its Affiliated Enterprises**

#### Article 14

The Company shall clearly identify the objectives and the division of authority and responsibility between it and its affiliated enterprises with respect to management of personnel, assets, and financial matters, and shall properly carry out risk assessments and establish appropriate firewalls.

#### Article 15

Unless otherwise provided by the laws and regulations, a manager of the Company may not serve as a manager of its affiliated enterprises.

A director who engages in any transaction for himself or on behalf of another person that is within the scope of the Company's operations shall explain the major content of such actions to the shareholders meeting and obtain its consent.

#### Article 16

The Company shall establish sound objectives and systems for management of finance, operations, and accounting in accordance with applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk assessment of major banks they deal with and customers and suppliers, and implement the necessary control mechanisms to reduce credit risk.

#### Article 17

When the Company and its affiliated enterprises enter into inter-company business transactions, a written agreement governing the relevant financial and business operations between them shall be made in accordance with the principle of fair dealing and reasonableness. Price and payment terms shall be definitively stipulated when contracts are signed, and non-arm's length transactions shall be prohibited.

All transactions or contracts made by and between the Company and its affiliated persons and shareholders shall follow the principles set forth in the preceding paragraph, and improper channeling of profits is strictly prohibited.

#### Article 18

A corporate shareholder having controlling power over the Company shall comply with the following provisions:

1. It shall bear a duty of good faith to other shareholders and shall not directly or indirectly cause the Company to conduct any business which is contrary to normal business practice or not profitable.



2. Its representative shall follow the rules implemented by the Company with respect to the exercise of rights and participation of resolution, so that at a shareholders meeting, the representative shall exercise his/her voting right in good faith and for the best interest of all shareholders and shall exercise the fiduciary duty and duty of care of a director.
3. It shall comply with relevant laws, regulations and the articles of incorporation of the Company in nominating directors and shall not act beyond the authority granted by the shareholders meeting or board meeting.
4. It shall not improperly intervene in corporate policy making or obstruct corporate management activities.
5. It shall not restrict or impede the management or production of the Company by methods of unfair competition such as monopolizing corporate procurement or foreclosing sales channels.
6. The representative that is designated when a corporate shareholder has been elected as a director shall meet the Company's requirements for professional qualifications. Arbitrary replacement of the corporate shareholder's representative is inappropriate.

#### Article 19

The Company shall retain at all times a register of major shareholders who own a relatively high percentage of shares and have controlling power, and of the persons with ultimate control over those major shareholders.

The Company shall disclose periodically important information about its shareholders holding more than 10 percent of the outstanding shares of the Company relating to the pledge, increase or decrease of share ownership, or other matters that may possibly trigger a change in the ownership of their shares.

The major shareholder indicated in the first paragraph refers to those who owns 5 percent or more of the outstanding shares of the Company or the shareholding stake thereof is on the top 10 list, provided however that the Company may set up a lower shareholding threshold according to the actual shareholding stake that may control the Company .

### **Chapter III Enhancing the Functions of the Board of Directors**

#### **Section 1 Structure of the Board of Directors**

## Article 20

The board of directors of the Company shall direct company strategies, supervise the management, and be responsible to the Company and shareholders. The various procedures and arrangements of its corporate governance system shall ensure that, in exercising its authority, the board of directors complies with laws, regulations, its articles of incorporation, and the resolutions of its shareholders meetings.

The structure of the Company's board of directors shall be determined by choosing an appropriate number of board members, not less than five, in consideration of its business scale, the shareholdings of its major shareholders, and practical operational needs.

The composition of the board of directors shall be determined by taking diversity into consideration. It is advisable that directors concurrently serving as the Company's officers not exceed one-third of the total number of the board members, and that an appropriate policy on diversity based on the Company's business operations, operating dynamics, and development needs be formulated and include, without being limited to, the following two general standards:

1. Basic requirements and values: Gender, age, nationality, and culture.
2. Professional knowledge and skills: A professional background (e.g., law, accounting, industry, finance, marketing, technology), professional skills, and industry experience.

All members of the board shall have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the board of directors shall possess the following abilities:

1. Ability to make operational judgments.
2. Ability to perform accounting and financial analysis.
3. Ability to conduct management administration.
4. Ability to conduct crisis management.
5. Knowledge of the industry.
6. An international market perspective.
7. Ability to lead.
8. Ability to make policy decisions.

## Article 21

The Company shall, according to the principles for the protection of shareholder rights and interests and equitable treatment of shareholders, establish a fair, just, and open procedure for the election of directors, encourage shareholder participation, and adopt the cumulative voting mechanism pursuant to the Company Act in order to fully reflect shareholders' views.

Unless the competent authority otherwise grants an approval, a spousal relationship or a familial relationship within the second degree of kinship may not exist among more than half of the directors of our Company.

When the number of directors falls below five due to the discharge of a director for any reason, the Company shall hold a by-election for director at the following shareholders meeting. When the number of directors falls short by one-third of the total number prescribed by the articles of incorporation, the Company shall convene a special shareholders meeting within 60 days of the occurrence of that fact for a by-election for director(s).

The aggregate shareholding percentage of all of the directors of the Company shall comply with the laws and regulations. Restrictions on the share transfer of each director and the creation, release, or changes of any pledges over the shares held by each director shall be subject to the relevant laws and regulations, and the relevant information shall be fully disclosed.

#### Article 22

The Company shall specify in its articles of incorporation in accordance with the laws and regulations of the competent authorities that it adopts the candidate nomination system for elections of directors, carefully review the qualifications of a nominated candidate and the existence of any other matters set forth in Article 30 of the Company Act, and act in accordance with Article 192-1 of the Company Act.

#### Article 23

Clear distinctions shall be drawn between the responsibilities and duties of the chairperson of the board of the Company and those of its general manager.

It is inappropriate for the chairperson to also act as the general manager or an equivalent post.

The Company with a functional committee shall clearly define the responsibilities and duties of the committee.

### **Section 2 Independent Director System**

#### Article 24

The Company shall appoint independent directors in accordance with its articles of incorporation. They shall be not less than two in number and not less than one-fifth of the total number of directors.

Independent directors shall possess professional knowledge and there shall be restrictions on their shareholdings. Applicable laws and regulations shall be observed and, in addition, it is not advisable for an independent director to hold office concurrently as a director (including independent director) or supervisor of more than five other TWSE/TPEX listed companies. Independent directors shall also maintain independence within the scope of their directorial duties, and may not have any direct or indirect interest in the Company.

If the Company and its group enterprises and organizations, and another company and its group enterprises and organizations nominate for each other any director, supervisor or managerial officer as a candidate for an independent director of the other, the Company shall, at the time it receives the nominations for independent directors, disclose the fact and explain the suitability of the candidate for independent director. If the candidate is elected as an independent director, the Company shall disclose the number of votes cast in favor of the elected independent director.

The “group enterprises and organizations” in the preceding paragraph comprise the subsidiaries of the Company, any foundation to which the Company’s cumulative direct or indirect contribution of funds exceeds 50 percent of its endowment, and other institutions or juristic persons that are effectively controlled by the Company.

Change of status between independent directors and non-independent directors during their term of office is prohibited.

The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination and other requirements with regard to the independent directors shall be set forth in accordance with the Securities and Exchange Act, the Regulations Governing Appointment of Independent Directors and Compliance Matter for Public Companies, and the rules and regulations of the Taiwan Stock Exchange or Taipei Exchange.

#### Article 25

The Company shall submit the following matters to the board of directors for approval by resolution as provided in the Securities and Exchange Act. When an independent director has a dissenting opinion or qualified opinion, it shall be noted in the minutes of the directors meeting:

1. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.

2. 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, or endorsements or guarantees for others.
3. A matter bearing on the personal interest of a director.
4. A material asset or derivatives transaction.
5. A material monetary loan, endorsement, or provision of guarantee.
6. The offering, issuance, or private placement of any equity-type securities.
7. The hiring, discharge, or compensation of an attesting CPA.
8. The appointment or discharge of a financial, accounting, or internal auditing officer.
9. Any other material matter so required by the competent authority.

#### Article 26

The Company shall stipulate the scope of duties of the independent directors and empower them with manpower and physical support related to the exercise of their power. The Company or other board members shall not obstruct, reject or circumvent the performance of duties by the independent directors.

The Company shall stipulate the remuneration of the directors according to applicable laws and regulations. The remuneration of the directors shall fully reflect the personal performance and the long-term management performance of the Company, and shall also take the overall operational risks of the Company into consideration. Different but reasonable remuneration from that of other directors may be set forth for the independent directors.

### **Section 3 Functional Committees**

#### Article 27

For the purpose of developing supervisory functions and strengthening management mechanisms, the board of directors of the Company, in consideration of the Company's scale and type of operations and the number of its board members, may set up functional committees for auditing, remuneration, nomination, risk management or any other functions, and based on concepts of corporate social responsibility and sustainable operation, may set up environmental protection, corporate social responsibility, or other committees, and expressly provide for them in the articles of incorporation.

Functional committees shall be responsible to the board of directors and submit their proposals to the board of directors for approval, provided that the performance of supervisor's duties by the audit committee pursuant to Article 14-4, paragraph 4 of the Securities and Exchange Act shall be excluded.

Functional committees shall adopt an organizational charter to be approved by the board of directors. The organizational charter shall contain the numbers, terms of office, and powers of committee members, as well as the meeting rules and resources to be provided by the Company for exercise of power by the committee.

#### Article 28

The Company shall establish an audit committee.

The audit committee shall be composed of the entire number of independent directors. It shall not be fewer than three persons in number, one of whom shall be convener, and at least one of whom shall have accounting or financial expertise.

The exercise of power by audit committee and independent directors and related matters shall be set forth in accordance with the Securities and Exchange Act, the Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and the rules and regulations of the TWSE or TPEX.

#### Article 28-1

The Company shall establish a remuneration committee, and it is advisable that more than half of the committee members be independent directors. The professional qualifications for the committee members, the exercise of their powers of office, the adoption of the organizational charter, and related matters shall be handled pursuant to the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

#### Article 28-2

The Company is advised to establish a nomination committee and its articles of association. It is advisable that a majority of the members of said committee be independent directors and an independent director be its chairperson.

### Article 28-3

The Company is advised to establish and announce channels for internal and external whistleblowers and have whistleblower protection mechanisms in place. The unit that handles whistleblowers' reporting shall be independent, provide encrypted protection for the files furnished by whistleblowers, appropriately restrict access to such files, and formulate internal procedures.

### Article 29

To improve the quality of its financial reports, the Company shall establish the position of deputy to its principal accounting officer.

To enhance the professional abilities of the deputy accounting officer of the preceding paragraph, the deputy's continuing education shall proceed following the schedule of the principal accounting officer.

Accounting personnel handling the preparation of financial reports shall also participate in relevant professional development courses for 6 hours or more each year. Those courses may be company internal training activities or may be professional courses offered by professional development institutions for principal accounting officers.

The Company shall select as its external auditor a professional, responsible, and independent attesting CPA, who shall perform regular reviews of the financial conditions and internal control measures of the Company. With regard to any irregularity or deficiency discovered and disclosed in a timely manner by the auditor during the review, and concrete measures for improvement or prevention suggested by the auditor, the Company shall faithfully implement improvement actions. It is advisable that the Company establish channels and mechanisms of communication between the independent directors, audit committee, and the attesting CPA.

The Company shall evaluate the independence and suitability of the CPA engaged by the Company regularly, and no less frequently than once annually. In the event that the Company engages the same CPA without replacement for 7 years consecutively, or if the CPA is subject to disciplinary action or other circumstances prejudicial to the CPA's independence, the Company shall evaluate the necessity of replacing the CPA and submit its conclusion to the board of directors.

#### Article 30

It is advisable that the Company engage a professional and competent legal counsel to provide adequate legal consultation services to the Company, or to assist the directors, the supervisors and the management to improve their knowledge of the law, for the purposes of preventing any infraction of laws or regulations by the company or its staff and ensuring that corporate governance matters proceed pursuant to the relevant legal framework and the prescribed procedures.

When, as a result of performing their lawful duties, directors or the management are involved in litigation or a dispute with shareholders, the Company shall retain a legal counsel to provide assistance as circumstances require.

The audit committee or an independent director may retain the service of legal counsel, CPA, or other professionals on behalf of the Company to conduct a necessary audit or provide consultation on matters in relation to the exercise of their power, at the expense of the Company.

### **Section 4 Rules for the Proceedings and Decision-Making Procedures of Board Meetings**

#### Article 31

The board of directors of the Company shall meet at least once every quarter, or convene at any time in case of emergency. To convene a board meeting, a meeting notice which specifies the purposes of the meeting shall be sent to each director no later than 7 days before the scheduled date. Sufficient meeting materials shall also be prepared and enclosed in the meeting notice. If the meeting materials are deemed inadequate, a director may ask the unit in charge to provide more information or request a postponement of the meeting with the consent of the board of directors.

The Company shall adopt rules of procedure for board meetings, which shall follow the Regulations Governing Procedure for Board of Directors Meetings of Public Companies with regard to the content of deliberations, procedures, matters to be recorded in the meeting minutes, public announcements, and other matters for compliance.

#### Article 32

Company directors shall exercise a high degree of self-discipline. If a director or a juristic person represented by the director is an interested party with respect to any proposal for a



board meeting, the director shall state the important aspects of the interested party relationship at the meeting. When the relationship is likely to prejudice the interests of the Company, the director may not participate in discussion or voting on that proposal and shall enter recusal during the discussion and voting. The director also may not act as another director's proxy to exercise voting rights on that matter.

Matters requiring the voluntary recusal of a director shall be clearly set forth in the rules of procedure for board meetings.

### Article 33

When a board meeting is convened to consider any matter submitted to it pursuant to Article 14-3 of the Securities and Exchange Act, an independent director of a the Company shall attend the board meeting in person, and may not be represented by a non-independent director via proxy. When an independent director has a dissenting or qualified opinion, it shall be noted in the minutes of the board of directors meeting; if the independent director cannot attend the board meeting in person to voice his or her dissenting or qualified opinion, he or she should provide a written opinion before the board meeting unless there are justifiable reasons for failure to do so, and the opinion shall be noted in the minutes of the board of directors meeting.

In any of the following circumstances, decisions made by the board of directors shall be noted in the meeting minutes, and in addition, publicly announced and filed on the MOPS two hours before the beginning of trading hours on the first business day after the date of the board meeting:

1. An independent director has a dissenting or qualified opinion which is on record or stated in a written statement.
2. The matter was not approved by the audit committee (if the company has set up an audit committee), but had the consent of more than two-thirds of all directors.

During a board meeting, managers from relevant departments who are not directors may, in view of the meeting agenda, sit in at the meetings, make reports on the current business conditions of the Company and respond to inquiries raised by the directors. Where necessary, a CPA, legal counsel, or other professional may be invited to sit in at the meetings to assist the directors in understanding the conditions of the Company for the purpose of adopting an appropriate resolution, provided that they shall leave the meeting when deliberation or voting takes place.

#### Article 34

Staff personnel of the Company attending board meetings shall collect and correctly record the meeting minutes in detail, as well as a summary, the method of resolution, and voting results of all the proposals submitted to the board meeting in accordance with relevant regulations.

The minutes of the board of directors meetings shall be signed by the chairperson and secretary of the meeting and sent to each director within 20 days after the meeting. The director attendance records shall be made part of the meeting minutes, treated as important corporate records, and kept safe permanently during the life of the Company.

Meeting minutes may be produced, distributed, and preserved by electronic means.

The Company shall record on audio or video tape the entire proceedings of a board of directors meeting and preserve the recordings for at least 5 years, in electronic form or otherwise.

If before the end of the preservation period referred to in the preceding paragraph a lawsuit arises with respect to a resolution of a board of directors meeting, the relevant audio or video recordings shall be preserved for a further period, in which case the preceding paragraph does not apply.

Where a board of directors meeting is held via teleconference or video conference, the audio or video recordings of the meeting form a part of the meeting minutes and shall be preserved permanently.

When a resolution of the board of directors violates laws, regulations, the articles of incorporation, or resolutions adopted in the shareholders meeting, and thus causes an injury to the Company, dissenting directors whose dissent can be proven by minutes or written statements will not be liable for damages.

#### Article 35

The Company shall submit the following matters to its board of directors for discussion:

1. Corporate business plans.
2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports which, under relevant laws and regulations, need not be CPA audited and attested.
3. Adoption or amendment to an internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and evaluation of effectiveness of an internal control system.
4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, to the 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. The offering, issuance, or private placement of any equity-type securities.
6. The performance assessment and the standard of remuneration of the managerial officers.
7. The structure and system of director's remuneration.
8. The appointment or discharge of a financial, accounting, or internal audit officer.
9. 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 next board meeting for retroactive recognition.
10. Any matter required by Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw to be approved by resolution at a shareholders meeting or to be approved by resolution at a meeting of the board of directors, or any such significant matter as may be prescribed by the competent authority.

Except for matters that must be submitted to the board of directors for discussion under the preceding paragraph, when the board of directors is in recess, it may delegate the exercise of its power to others in accordance with law, regulations, or its articles of incorporation. However, the level of delegation or the content or matters to be delegated shall be clearly specified, and general authorization is not permitted.

#### Article 36

The Company shall ask the appropriate corporate department or personnel to execute matters pursuant to board of directors' resolutions in a manner consistent with the planned schedule and objectives. It shall also follow up on those matters and faithfully review their implementation.

The board of directors shall remain informed of the progress of implementation and receive reports in subsequent meetings to ensure the actual implementation of the board's management decisions.

### **Section 5 Fiduciary Duty, Duty of Care and Responsibility of Directors**

#### Article 37

Members of the board of directors shall faithfully conduct corporate affairs and perform the duty of care of a good administrator. In conducting the affairs of the Company, they shall exercise their powers with a high level of self-discipline and prudence. Unless matters are otherwise reserved by law for approval in shareholders meetings or in the articles of incorporation, they shall ensure that all matters are handled according to the resolutions of board of directors.

It is advisable that the Company formulate rules and procedures for board of directors performance assessments. Each year, in respect of the board of directors and individual directors, it shall conduct regularly scheduled performance assessments through self-assessments or peer-to-peer assessments, and may also do so through outside professional institutions or in any other appropriate manner. A performance assessment of the board of directors shall include the following aspects, and appropriate assessment indicators shall be developed in consideration of the Company's needs:

1. The degree of participation in the Company's operations.
2. Improvement in the quality of decision making by the board of directors.
3. The composition and structure of the board of directors.
4. The election of the directors and their continuing professional education.

The performance assessments of board members (self-assessments or peer-to-peer assessments) shall include the following aspects, with appropriate adjustments made on the basis of the Company's needs:

1. Their grasp of the Company's goals and missions.
2. Their recognition of director's duties.
3. Their degree of participation in the Company's operations.
4. Their management of internal relationships and communication.
5. Their professionalism and continuing professional education.

It is advisable that the Company conduct performance assessments of a functional committee, covering the following aspects, with appropriate adjustments made on the basis of the Company's needs:

1. Their degree of participation in the Company's operations.
2. Their recognition of the duties of the functional committee.
3. Improvement in the quality of decision making by the functional committee.
4. The composition of the functional committee, and election and appointment of committee members.

The Company is advised to submit the results of performance assessments to the board of directors and use them as reference in determining compensation for individual directors, their nomination and additional office term.

#### Article 37-1

It is advisable for the Company to establish a succession plan for the management. The development and implementation of such plan shall be periodically evaluated by the board of directors to ensure sustainable operation.

#### Article 37-2

The board of directors is advised to evaluate and monitor the following aspects of the Company's direction of operation and performance in connection with intellectual properties, to ensure the Company develops an intellectual property regulatory system in accordance with the Plan-Do-Check-Act cycle:

1. Formulate intellectual property regulatory policies, objectives and systems that are slightly associated with the operational strategies.
2. Develop, implement and maintain on the basis of scale and form its regulatory systems governing the procurement, protection, maintenance and utilization of intellectual properties.
3. Identify and provide the necessary resources sufficient to ensure effective implementation and maintenance of the intellectual property regulatory system.
4. Observe internally and externally the risks and opportunities that intellectual property regulation may present and adopt corresponding measures.
5. Plan for and implement a continuous improvement mechanism to ensure the operation and effects of the intellectual property regulatory regime meet the Company's expectations.

#### Article 38

If a resolution of the board of directors violates law, regulations or the Company's articles of incorporation, then at the request of shareholders holding shares continuously for a year or an independent director, to discontinue the implementation of the resolution, members of the board shall take appropriate measures or discontinue the implementation of such resolution as soon as possible.

Upon discovering a likelihood that the Company would suffer material injury, members of the board of directors shall immediately report to the audit committee, or an independent director member of the audit committee in accordance with the foregoing paragraph.

#### Article 39

The Company shall take out directors liability insurance with respect to liabilities resulting from exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the Company and shareholders arising from the wrongdoings or negligence of a director.

The Company shall report the insured amount, coverage, premium rate, and other major contents of the liability insurance it has taken out or renewed for directors, at the next board meeting.

#### Article 40

Members of the board of directors are advised to participate in training courses on finance, risk management, business, commerce, accounting, law or corporate social responsibility offered by institutions designated in the Rules Governing Implementation of Continuing Education for Directors and Supervisors of TWSE/TPEX Listed Companies, which cover subjects relating to corporate governance upon becoming directors and throughout their terms of occupancy. They shall also ensure that the Company's employees at all levels will enhance their professionalism and knowledge of the law.

### **Chapter IV Respecting Stakeholders' Rights**

#### Article 41

The Company shall maintain channels of communication with its banks, other creditors, employees, consumers, suppliers, community, or other stakeholders of the Company, respect and safeguard their legal rights and interests, and designate a stakeholders section on its website.

When any of a stakeholder's legal rights or interests is harmed, the Company shall handle the matter in a proper manner and in good faith.

#### Article 42

The Company shall provide sufficient information to banks and its other creditors to facilitate their evaluation of the operational and financial conditions of the Company and its decision-making process. When any of their legal rights or interest is harmed, the Company shall respond with a responsible attitude and assist creditors in obtaining compensation through proper means.

#### Article 43

The Company shall establish channels of communication with employees and encourage employees to communicate directly with the management, directors, or supervisors so as to reflect employees' opinions about the management, financial conditions, and material decisions of the Company concerning employee welfare.

#### Article 44

In developing its normal business and maximizing the shareholders' interest, the Company shall pay attention to consumers' interests, environmental protection of the community, and public interest issues, and shall give serious regard to the Company's social responsibility.

### **Chapter V Improving Information Transparency**

#### **Section 1 Enhancing Information Disclosure**

#### Article 45

The Company shall perform its obligations faithfully in accordance with the relevant laws and the related TWSE and TPEX rules.

The Company is advised to publish and report its annual financial report within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline.

The Company shall establish an Internet-based reporting system for public information, appoint personnel responsible for gathering and disclosing the information, and establish a spokesperson system so as to ensure the proper and timely disclosure of information about policies that might affect the decisions of shareholders and stakeholders.

#### Article 46

In order to enhance the accuracy and timeliness of the material information disclosed, the Company shall appoint a spokesperson and acting spokesperson(s) who understand thoroughly the Company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing the Company in making statements independently.

The Company shall appoint one or more acting spokespersons who shall represent the Company, when the spokesperson cannot perform his/her duties, in making statements independently, provided that the order of authority is established to avoid any confusion. In order to implement the spokesperson system, the Company shall unify the process of making external statements. It shall require the management and employees to maintain the confidentiality of financial and operational secrets and prohibit their disclosure of any such information at will.

The Company shall disclose the relevant information immediately whenever there is any change to the position of a spokesperson or acting spokesperson.

#### Article 47

In order to keep shareholders and stakeholders fully informed, the Company shall utilize the convenience of the Internet and set up a website containing the information regarding the Company's finances, operations, and corporate governance. It is also advisable for the Company to furnish the financial, corporate governance, and other relevant information in English.

To avoid misleading information, the aforesaid website shall be maintained by specified personnel, and the recorded information shall be accurate, detailed and updated on a timely basis.

#### Article 48

The Company shall hold an investor conference in compliance with the regulations of the TWSE and TPEX, and shall keep an audio or video record of the meeting. The financial and business information disclosed in the investor conference shall be disclosed on the Market Observation Post System and provided for inquiry through the website established by the Company, or through other channels, in accordance with the TWSE or TPEX rules.

### **Section 2 Disclosure of Information on Corporate Governance**

#### Article 49

The Company shall disclose and update from time to time the following information regarding corporate governance in the fiscal year in accordance with laws and regulations and TWSE or TPEX rules:

1. Corporate governance framework and rules.
2. Ownership structure and the rights and interests of shareholders, including specific and explicit dividend policy).
3. Structure, professionalism and independence of the board of directors.
4. Responsibility of the board of directors and managerial officers.
5. Composition, duties and independence of the audit committee.
6. Composition, duties and operation of the remuneration committee and other functional committees.
7. The remuneration paid to the directors, general manager and vice general manager in the last two fiscal years, the analysis of the percentage of total remuneration to net profit after tax in the parent company only financial reports or individual financial reports, the policy, standard and package of remuneration payment, the procedure for determination of



remuneration and the connection with the operation performance and future risk. Under special individual circumstances, remuneration of individual directors shall be disclosed.

8. The progress of training of directors.

9. The rights, relationships, avenues for complaint, concerns, and appropriate response mechanism regarding stakeholders.

10. Details of the events subject to information disclosure required by law and regulations.

11. The enforcement of corporate governance, differences between the corporate governance principles implemented by the Company and these Principles, and the reason for the differences.

12. Other information regarding corporate governance.

The Company is advised, according to the actual performance of the corporate governance system, to disclose the plans and measures to improve its corporate governance system through appropriate mechanisms.

## **Chapter VII Supplementary Provisions**

### **Article 50**

The Company shall at all times monitor domestic and international developments in corporate governance as a basis for review and improvement of the Company's own corporate governance mechanisms, so as to enhance their effectiveness.

### **Article 51**

Any matters not stipulated in the Principles shall be governed by relevant laws and regulations such as the Company Act, Securities and Exchange Act, and general practices.

### **Article 52**

The Principles shall be implemented after the board of directors grants the approval, the same procedure shall be followed when the Principles have been amended.

## Phison Electronics Corporation Current Shareholding of Directors

1. The statutory shareholding of directors of the Company is as follows:

Types and total number of shares issued by the Company: 199,624,993 common shares.

Statutory minimum number of shares held by all directors is 11,977,499 shares.

As the Company has established the Audit Committee, statutory shares held by supervisors are not applicable.

2. As of April 2, 2023, the book closure date of the general shareholders' meeting, the number of shares held by all directors:

Record date: April 2, 2023

Position	Name	Current shareholding (shares)	Representative
Chairman	Cheng He Investment Co., Ltd	2,403,000	Wee Kuan Gan
Director	Chee Kong Aw Yong	3,498,000	
Director	Tzung Horng Kuang	1,438,736	
Director	Jiunn Yeong Yang	4,549,114	
Director	KIOXIA Corporation	19,821,112	Hiroshi Miyauchi
Director	Cheng Shuo Investment Limited	1,158,000	Chih Jen Hsu
Independent Director	Wen Chiu Chung	0	
Independent Director	Chen Wei Wang	0	
Independent Director	Yu Lun Huang	0	
Number of shares actually held by all directors		32,867,962	
Shareholding ratio of total issued shares (%)		16.46	

The effect of dividend distributions for the current fiscal year on the Company's operating performance, earnings per share, and return on equity : Not Applicable.

**Phison Electronics Corporation**



**Chairman: Wee Kuan Gan**



# **PHISON**

**Phison Electronics Corp.**

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