

Notice to Readers

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

PHISON ELECTRONICS CORP.
2023 ANNUAL GENERAL SHAREHOLDERS' MEETING
MEETING MINUTES
(Translation)

Convention Method: Physical meeting

Time and Date: 9:00 A.M. on May 31, 2023 (Wednesday)

Place: 1 Factory, 1F Meeting Room, No. 1, Qun-Yi Rd., Jhunan, Miaoli, Taiwan

Attending shareholders: Attending shareholders and proxy represented 147,209,194 shares (including 88,974,233 shares which attended through electronic voting) accounting for 76.36% of 192,764,993 shares, the Company's total outstanding shares (deducting non-voting shares 6,860,000 shares as required in Article 179 Paragraph 2 of the Company Act).

Attendants' directors: Chairman Wee Kuan Gan, Director Chee Kong Aw Yong, Director Tzung Horng Kuang, Director Chih Jen Hsu, Director Jiunn Yeong Yang, Independent Director Wen Chiu Chung, Independent Director Yu Lun Huang.

Attendants as guest or observer: Accountants Chien Hui Lu of KPMG, Chia-Yen Tsai, Attorney-at-Law, HL & Partners.

Chairman: Wee Kuan Gan, the chairman of the Board of Directors

Recorder: Angela Lee

I. Call Meeting to Order :

The aggregate shareholding of the shareholders present in person or by proxy constituted a quorum. The Chairman called the meeting to order.

II. Chairman's Address (Omitted)

III. Matters to Report (Proposed by Board of Directors)

Case No. 1: The Company's 2022 business report, please refer to Attachment 1.

Case No. 2: Report on Audit Committee's Review Report of 2022 Financial Statements, please refer to Attachment 2.

Case No. 3: 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: 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: 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: 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: Report on the Implementation of Treasury Stocks and Rules of Share Repurchase and Transferring to the Employees, please refer to Attachment 3.

Case No. 8: 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 for the comparison table of the above amendments.

Case No. 9: Report of the Company's Investment in the Mainland, please refer to Attachment 5.

IV. 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 and Attachment 6.

Resolution : The result is as follows :

Shares represented at the time of voting : 146,266,720 Votes (Including votes casted electronically 88,974,233 Votes).

(votes casted electronically)

Voting Results	Votes in favor	Votes against	Votes invalid	Votes abstained
	137,179,742 Votes (79,902,260 Votes)	4,163 Votes (4,163 Votes)	0 Votes	9,082,815 Votes (9,067,810 Votes)
% of the total represented share present	93.78%	0.00%	0.00%	6.20%

RESOLVED, that the above proposal be and hereby was approved as proposed.

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: NTDS)

Item	Amount
Retained earnings at the beginning of the period	19,485,703,291
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
The total of, the net profit after tax of the period plus the else items of the period be included in the undistributed earnings.	5,489,393,111
Less: 10% Legal Reserve	548,939,311
Reserved for first half of 2022	399,191,497
The balance of Legal Reserve	149,747,814
Less: Special Reserve based on regulations	216,810,188
Reserved for first half of 2022	0
The balance of Special Reserve based on regulations	216,810,188
Distributed earnings as of December 31, 2022	24,209,346,903
Distributable items:	
Dividend to shareholders-Cash	2,836,701,899
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
Unappropriated retained earnings by the end of the period.	21,372,645,004

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 : The result is as follows :

Shares represented at the time of voting : 146,266,720 Votes (Including votes casted electronically 88,974,233 Votes).

(votes casted electronically)

Voting Results	Votes in favor	Votes against	Votes invalid	Votes abstained
	137,360,733 Votes (80,083,251 Votes)	9,521 Votes (9,521 Votes)	0 Votes	8,896,466 Votes (8,881,461 Votes)
% of the total represented share present	93.91%	0.00%	0.00%	6.08%

RESOLVED, that the above proposal be and hereby was approved as proposed.

V. 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.

4. Submitted for election.

Election result:

PHISON ELECTRONICS CORP.

The list of newly elected directors with votes received of the 2023 shareholders' meeting

No.	Title	Account name or Name	Votes Received
1	Director	Cheng He Investment Co., Ltd Representative : Wee Kuan Gan	129,133,018 Votes
2	Director	Chee Kong Aw Yong	120,090,592 Votes
3	Director	Tzung Horng Kuang	119,178,068 Votes
4	Director	Cheng Shuo Investment Limited Representative : Chiu An Chuang	119,087,762 Votes
5	Director	Jiunn Yeong Yang	119,884,220 Votes
6	Director	Trusted Investment Account of KIOXIA Corporation by First Bank Representative : Hiroshi Miyauchi	119,086,998 Votes
7	Independent Director	Chen Wei Wang	107,097,068 Votes
8	Independent Director	Yu Lun Huang	107,072,316 Votes
9	Independent Director	Huei Ming Wang	108,810,859 Votes

VI. Discussions

Case No. 1 (Proposed by the Board)

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

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

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

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

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

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

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

B. The actual price determination date and the actual price of private placement shall not be less than the range decided by the shareholders' meeting. The board of directors will be

authorized to determine the price based on the aforesaid price, future specific persons' situation and market conditions.

- C. The pricing method of this private placement price is based on the "Directions for Public Companies Conducting Private Placements of Securities" and considers that the company's future prospects and the timing, object, and quantity of private placement of securities transfer are strictly limited. Moreover, it is also not possible to be listed on the TPEX within three years and the liquidity is poor. Therefore, the pricing of the private placement of this fiscal year shall be reasonable, and would cause no major impact on shareholders' equity.

(2) Methods of selecting specific persons

- A. The object of the private placement of common shares is in accordance with Article 43-6 of the Securities Exchange Act and the Order Tai-Cai-Zheng-Yi No. 0910003455 of the Financial Supervisory Commission of the Executive Yuan issued on June 13, 2002, a specific person as strategic investor.
- B. Offerees are intended to be strategic investors:
- (i) Method and purpose of selecting offerees: Due to the Company's long-term business and business development needs, it will give priority to those who may directly or indirectly contribute to the future operation of the Company, and can help the Company expand its business and product market, strengthen customer relations, or enhance product development integration benefits, or can improve technology, and can identify with the Company's business philosophy of strategic investors.
- (ii) Necessity: The purpose of selecting offerees is to introduce strategic investors and strengthen long-term cooperation with strategic partners. Through strategic investors, the long-term competitiveness and operational effectiveness of the company can be

enhanced, which is necessary.

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

C. There are at present no offerees.

(3) Necessary reasons for private placement:

- A. Reasons for not adopting public offerings: Considering factors such as capital market conditions, issuance costs, timeliness and feasibility of fundraising for private placements, and restrictions on private placement of shares that cannot be freely transferred within three years, etc. In this way, it can ensure and strengthen strategic partnerships in a closer long-term cooperation relationship. Therefore, public offering is not adopted this time, and a private placement to increase capital in cash by issuance of new share is conducted instead.
- B. The quota of private placement: The total quota of this private placement of common shares shall not exceed 18,000,000 shares, and will be processed once or twice within one year from the date of the resolution of the shareholders' meeting.
- C. The capital purpose and the estimated benefits of private placement of common shares processed in different tranches.

Processing times	Capital purpose	Expected results
Once in a single transaction	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 : The result is as follows :

Shares represented at the time of voting : 146,267,720 Votes (Including votes casted electronically 88,974,233 Votes).

(votes casted electronically)

Voting Results	Votes in favor	Votes against	Votes invalid	Votes abstained
	136,996,290 Votes (79,718,808 Votes)	369,260 Votes (369,260 Votes)	0 Votes	8,902,170 Votes (8,886,165 Votes)
% of the total represented share present	93.66%	0.25%	0.00%	6.08%

RESOLVED, that the above proposal be and hereby was approved as proposed.

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.

Resolution : The result is as follows :

Shares represented at the time of voting : 146,267,720 Votes (Including votes casted electronically 88,974,233 Votes).

(votes casted electronically)

Voting Results	Votes in favor	Votes against	Votes invalid	Votes abstained
	134,105,551 Votes (76,828,069 Votes)	106,410 Votes (106,410 Votes)	0 Votes	12,055,759 Votes (12,039,754 Votes)
% of the total represented share present	91.68%	0.07%	0.00%	8.24%

RESOLVED, that the above proposal be and hereby was approved as proposed.

VII. Extraordinary Motions: None.

VII. The meeting was adjourned at 09:50 AM on May 31, 2023 (Wednesday).



Wee Kuan Gan
Chairman of the Board of Directors



Angela Lee
Recorder

The minutes of this shareholder's meeting only provide a summary of the meeting key highlights. The actual content and proceedings of the meeting are subject to the recorded audiovisual documentation of the meeting.

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 (Note 1)	NT\$2,061,215,579
Average price per share of share repurchase (Note 1)	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 2)	3.44%

Note 1: This is the cost of repurchased shares after deducting the discount amount of all transaction fees received after the expiration of the share repurchase period, and the average repurchase price per share calculated accordingly.

Note 2: 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 in the fiscal year in accordance with laws and regulations	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>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.</p> <p>8. The progress of training of directors.</p> <p>9. The rights, relationships, avenues for complaint, concerns, and appropriate response mechanism regarding stakeholders.</p> <p>10. Details of the events subject to information disclosure required by law and regulations.</p> <p>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.</p>			

Current provision		Amended provision		Revision Notes
Article no.	Content	Article no.	Content	
	<p>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.</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	%
Assets				
Current assets:				
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>
Non-current assets:				
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>
Total assets	\$ 59,301,369	100	62,757,567	100
Liabilities and Equity				
Current liabilities:				
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>21,718,897</u>	<u>34</u>
Non-current liabilities:				
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>
Total liabilities	21,669,547	37	25,449,133	40
Equity (notes 6(19) and (20)):				
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>
Total equity	\$ 59,301,369	100	62,757,567	100
Total liabilities and equity	\$ 59,301,369	100	62,757,567	100

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	Operating revenue (notes 6(22) and 7)	\$ 59,571,015	100	62,552,823	100
5000	Operating costs (notes 6(7), (23) and 7)	42,678,103	72	43,504,064	70
	Gross profit from operations	16,892,912	28	19,048,759	30
5910	Unrealized profit on transactions with associates	17,277	-	(54,596)	-
5950	Realized gross profit	16,910,189	28	18,994,163	30
	Operating expenses (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	-
	Total operating expenses	10,266,103	17	9,960,606	16
	Net operating income	6,644,086	11	9,033,557	14
	Non-operating income and expenses:				
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	Profit before tax	6,232,624	10	9,588,641	15
7950	Income tax expenses (note 6(18))	831,478	1	1,441,426	2
8200	Net profit for the year	5,401,146	9	8,147,215	13
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(8,356)	-	(354)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(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	-
	Total items that will not be reclassified subsequently to profit or loss	(402,681)	-	386,386	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	177,651	-	(106,472)	-
8399	Income tax related to items that may be reclassified subsequently (note 6(18))	(6,817)	-	-	-
	Total items that may be reclassified subsequently to profit or loss	170,834	-	(106,472)	-
8300	Other comprehensive income	(231,847)	-	279,914	-
8500	Total comprehensive income	\$ 5,169,299	9	8,427,129	13
	Earnings per share (New Taiwan Dollars) (note 6(21)):				
9750	Basic earnings per share	\$ 27.71		41.34	
9850	Diluted earnings per share	\$ 26.06		40.09	

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			Retained earnings		Total	Exchange differences on translation of foreign financial statements	Total other equity: interest	Total	Treasury shares	Total equity
	Common shares	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve						
Balance at January 1, 2021	1,970,740	-	1,970,740	6,388,173	4,306,531	116,125	22,381,739	36,763,895	(17,091)	(165,341)	85,147,215
Net profit for the year	-	-	-	-	-	-	8,147,215	(283)	-	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(283)	(106,472)	(106,472)	-	(209,204)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	8,146,932	(386,669)	(386,669)	-	7,454,000
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	1,223,777	-	(1,223,777)	-	-	-	(6,503,442)
Cash dividends of common shares	-	-	-	-	-	(20,557)	20,557	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	-	-	-	-	-
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)	-	-
Balance at December 31, 2021	1,970,740	-	1,970,740	7,238,436	5,530,308	155,568	22,310,098	27,995,974	(143,563)	(103,284)	37,308,434
Net profit for the year	-	-	-	-	-	-	5,401,146	(6,685)	170,834	(395,996)	5,401,146
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	(6,685)	(6,685)	-	(231,847)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	5,394,461	(7,370)	164,149	(395,996)	5,160,244
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	817,193	-	(817,193)	-	-	-	(4,532,702)
Cash dividends of common shares	-	-	-	-	-	(155,568)	(155,568)	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	1,012,124	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	360,211	-	-	-	-	-	(2,061,216)	(1,340,794)
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)	-	-
Balance at December 31, 2022	1,970,740	16,005	1,986,745	8,970,438	6,347,501	-	27,605,164	28,925,665	27,271	(216,810)	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
Cash flows from operating activities:		
Profit before income tax	\$ 6,232,624	9,588,641
Adjustments:		
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)
Net cash flows from operating activities	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)

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities:		
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
Net cash flows from (used in) investing activities	<u>(867,744)</u>	<u>2,703,299</u>
Cash flows from financing activities:		
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)	-
Net cash flows used in financing activities	<u>(4,977,809)</u>	<u>(2,118,848)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>425,005</u>	<u>23,458</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,463,117)</u>	<u>5,672,024</u>
Cash and cash equivalents at beginning of period	<u>17,675,707</u>	<u>12,003,683</u>
Cash and cash equivalents at end of period	<u>\$ 15,212,590</u>	<u>17,675,707</u>

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

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	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings					
Balance at January 1, 2021	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	1,970,740	1,970,740	6,586,173	4,306,531	-	8,147,215	8,147,215	-	-	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	-	8,147,215	8,147,215	(106,472)	386,669	280,197	8,427,914
Total comprehensive income (loss) for the year	-	-	-	-	-	8,146,932	8,146,932	(106,472)	386,669	280,197	8,427,129
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	1,223,777	-	(1,223,777)	-	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	(6,503,442)	(6,503,442)	-	-	-	(6,503,442)
Reversal of special reserve	-	-	-	-	(20,557)	20,557	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	268,525	-	-	(422,983)	(422,983)	-	-	-	(154,458)
Due to recognition of equity component of convertible bonds issued	-	-	281,369	-	-	-	-	-	-	-	281,369
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	102,369	-	-	-	-	-	-	-	102,369
Balance at December 31, 2021	-	-	-	-	-	11,572	11,572	-	(11,572)	-	-
Net profit for the year	1,970,740	1,970,740	7,238,436	5,530,308	155,568	22,310,098	27,995,974	(143,563)	246,847	103,284	37,308,434
Other comprehensive income (loss) for the year	-	-	-	-	-	5,401,146	5,401,146	-	-	-	5,401,146
Total comprehensive income (loss) for the year	-	-	-	-	-	(6,685)	(6,685)	170,834	(395,996)	(225,162)	(231,847)
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	817,193	-	(817,193)	-	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	(4,532,702)	(4,532,702)	-	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	(155,568)	155,568	-	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	1,012,124	-	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	360,211	-	-	-	-	-	-	(2,061,216)	(2,061,216)
Share-based payments	-	-	359,667	-	-	-	-	-	-	-	360,211
Exercise of employee share options	-	16,005	-	-	-	-	-	-	-	-	16,005
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	94,932	94,932	-	(94,932)	-	-
Balance at December 31, 2022	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
Cash flows from operating activities:		
Profit before income tax	\$ 6,296,920	9,737,614
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	650,774	470,642
Amortization expense	395,794	271,835
Expected credit loss	63,035	6,600
Net loss (gain) on financial assets at fair value through profit or loss	276,636	(266,703)
Finance costs	35,783	19,006
Gain on disposal of property, plant and equipment	(136)	-
Interest income	(97,143)	(37,546)
Dividend income	(90,937)	(95,052)
Share-based payments	360,211	281,369
Shares of loss (profit) of associates accounted for using the equity method	1,319,168	(290,734)
Loss (gain) on disposal of investments accounted for using the equity method	(30,426)	272
Unrealized profit (loss) on transactions with associates	(17,277)	54,596
Unrealized foreign exchange loss (gain)	(268,849)	31,423
Inventory obsolescence loss	1,711,889	135,888
Recognition (reversal) of refund liabilities	(111,852)	555,242
Profit from lease modification	(191)	(6)
Gain recognized in bargain purchase transaction	(16,289)	-
Total adjustments to reconcile profit (loss)	4,180,190	1,136,832
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	1,786,146	(2,748,366)
Other receivables	332,124	(314,156)
Inventories	(2,497,889)	(9,490,943)
Prepayments	(44,304)	49,250
Other current assets	1,759	30,802
Contract liabilities	(56,721)	167,491
Accounts payable (including related parties)	(3,197,533)	5,605,507
Other payables	(1,041,547)	1,830,736
Other current liabilities	(121,388)	(169,088)
Net defined benefit liabilities	1,545	1,015
Total changes in operating assets and liabilities	(4,837,808)	(5,037,752)
Cash inflow generated from operations	5,639,302	5,836,694
Interest paid	(6,980)	(19,143)
Income taxes paid	(2,060,606)	(720,321)
Net cash flows from operating activities	3,571,716	5,097,230

(Continued)

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

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

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