



**PHISON**

Stock code : 8299

# Phison Electronics Corporation

## 2022 ANNUAL REPORT

Annual Report is available in the following websites  
Taiwan Stock Exchange Market Observation Post System:

<http://mops.twse.com.tw>

Corporation Website :

<https://www.phison.com>

Printed on May 12, 2023

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# Phison Electronics Corporation

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# Chapter 1

## Letter to Shareholders



# Chapter 1. Letter to Shareholders

Dear Shareholders,

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.

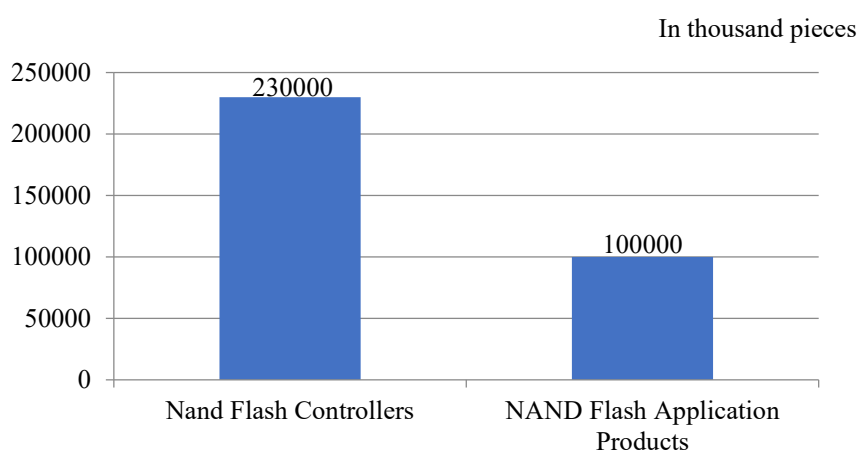
In terms of SD memory cards, the company released and mass-produced the latest controller PS5017 for SD & microSD cards compatible with SD7.0/8.0 (SD Express) specifications. It has the absolute advantage of high-speed random access, and provides up to 1TB data storage capacity, which is the highest 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.

The following products have been successfully developed and launched in 2022, including:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.

8. 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.
9. For more advanced manufacturing processes, develop next-generation PCIe PHY, and continue to lay out the field of IP authorization.
10. Developed a new generation of error correction modules to support high-level 3D TLC/QLC and next-generation PLC flash memory.
11. 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.
12. 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.

In 2023, the Company plans to supplement and expand R&D personnel to 2,500~3,000 people approximately. The estimated shipment of major products in 2023 years is as follows:



According to the analysis of market demand trend, industry competition strategy, Phison plan to continuously upgrade current product line and develop new products as follows in 2023:

1. 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.
2. 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.
3. 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.
4. 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.

5. 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.
6. Continue to launch Redriver/Retimer ICs for PCs, servers, and vehicle systems to provide the best signal stabilization solution for high-speed transmission platforms.

Looking ahead, by upholding the cores of the Company culture, Phison Electronics is moving forward to comply with the changing global trends for continuing to expand the territory of the market and to stand the leadership in the market to achieve the goal of operating the Company stably.

**Respectfully yours**

**Wee Kuan Gan, Chairman**

**Cheek Kong Aw Yong, President**



# Chapter 2

## Company Profile

## Chapter 2. Company Profile

**2.1 Date of Incorporation: Nov. 8th, 2000**

**TPEX-listed Date: Dec. 6th, 2004**

### 2.2 Company History

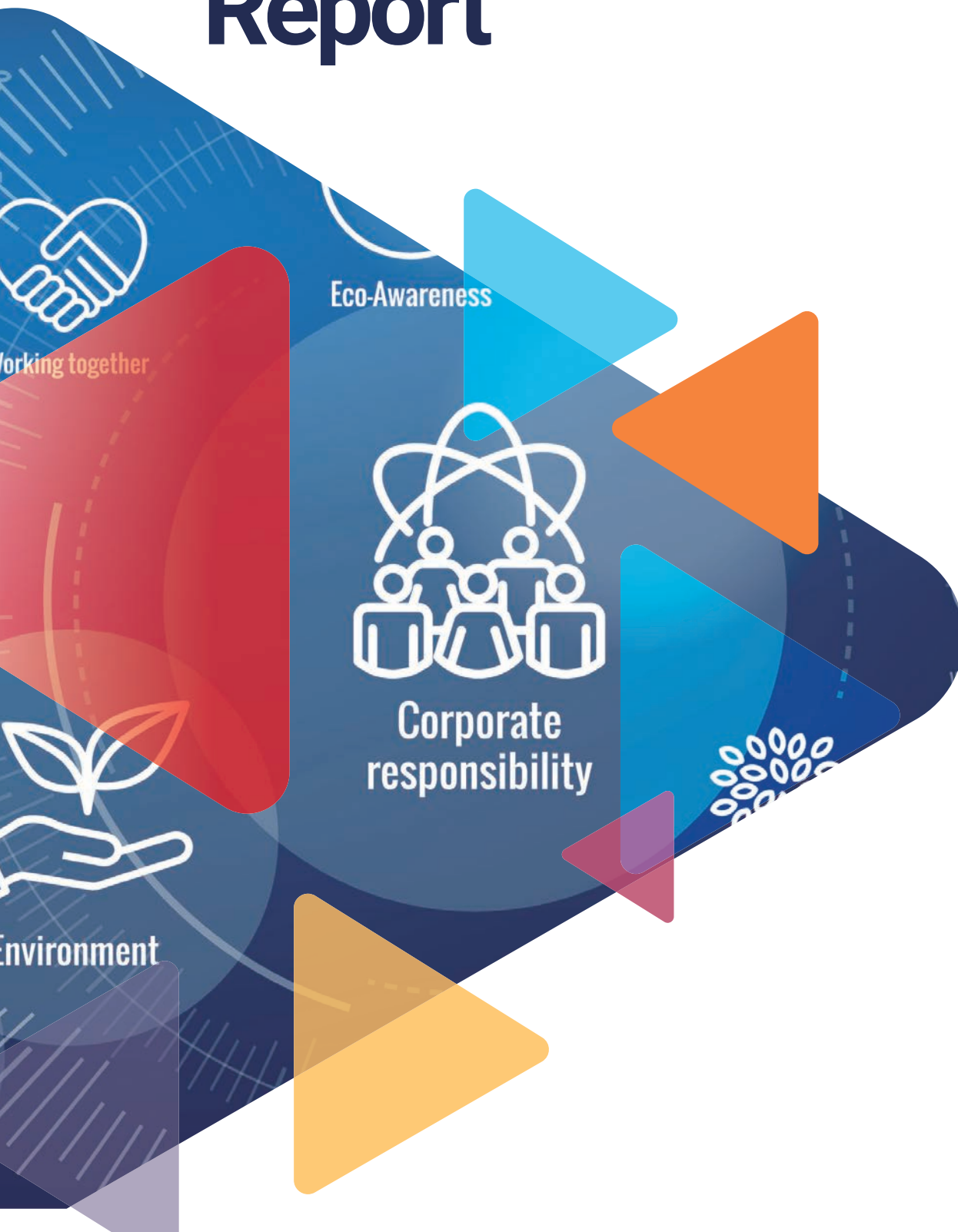
Year	Important event
Jan, 2016	• Phison Electronics Corporation announced the first controller chip PS5007-E7 which supports PCIe Gen3 x 4 NVMe SSD
July, 2016	• Top 500 of export and import manufacturers with excellent performance in 2015
Sep, 2016	• Phison Electronics Corporation announced the first solution in the industry for the SD 5.0 specification. This solution led the SD card application into an era of high-speed video recording of Video Speed Class
Sep, 2016	• Phison Electronics Corporation announced the microSD card of "Max IOPS" product line
Dec, 2016	• NT\$3,000,000 of treasury shares were annulled. The paid-in capital was decreased to NT\$ 1,970,739,930
Feb, 2017	• Phison SSD controller passed the BiCS3 testing verification which will help the Company and Toshiba to enhance the 3DNAND application
Apr, 2017	• The SD 5.1 A1 controller PS8131 introducing BiCS3 technical
July, 2017	• Top 500 of large enterprises in Taiwan in 2017- Ranking the first of computer peripheral equipment industry/ranking 13th of manufacturing operation performance
Oct, 2017	• Top 500 of export and import manufacturers with excellent performance in 2016
Apr, 2018	• Launched the world's first 512GB microSD card
June, 2018	• Announcing flagship PCIe Gen3x4 NVMe SSD controller PS5012-E12, targeting high-end NAND storage applications such as servers, gaming, and edge computing
July, 2018	• Top 5000 of large enterprises in Taiwan in 2018- Ranking the first of computer peripheral equipment industry/ranking 13th of manufacturing operation performance
Sep, 2018	• Top 500 of export and import manufacturers with excellent performance in 2017
Oct, 2018	• Phison Electronics Corporation won the "15th Taiwan Information Storage Technical Award-Industry Contribution Award" of 2018
Jan, 2019	• Launching the world's first PCIe Gen4x4 NVMe SSD controller PS5106-E16, consistently serving as the leader in the industry
July, 2019	• Top 5000 of large enterprises in Taiwan in 2019- Ranking the first in computer peripheral equipment industry/ranking 13th in manufacturing operation performance
Sep, 2019	• Announcing the world's first controller chip PS5019-E19T of PCIe Gen4x4 DRAMLess NVMe SSD
Oct, 2019	• Top 500 of export and import manufacturers with excellent performance in 2018
Jan, 2020	• Releasing the most complete 3D QLC NAND storage solution at the CES exhibition in the US
Oct, 2020	• Announcing the world's highest capacity S12DC enterprise QLC SSD storage solution
Nov, 2020	• With the coming of AI era, Phison launched FX series of customized enterprise SSD solutions

Year	Important event
Nov, 2020	• Launched the world's fastest PCIe Gen4 SSD controller chip PS5018-E18
Jan, 2021	• Announced a full range of storage solutions for gaming and content creators at CES 2021, including the world's first USB3.2 controller U17/U18, the world's highest CP, the next generation PCIe Gen4x4 DRAM-Less SSD controller PS5021-E21T, which offers the highest CP value for both performance and cost, the world's only PCIe Gen4x4 SSD controller PS5018-E18 that achieves 7000MB/s read/write performance, and the world's first Phison E13T BGA SSD solution to integrate PCIe NVMe performance into a small (11.5mm x 13mm) BGA SSD
Feb, 2021	• Phison launches the world's first SD Express card to meet the advent of high-definition era
Mar, 2021	• Phison joins the AECC alliance to deepen the approach of the automotive storage market
May, 2021	• Phison and Cigent jointly launch self-defense SSD solution to meet new cyber security standards
May, 2021	• Phison exhibited a full range of new-generation gaming storage solutions at Computex to fully meet the high-speed storage needs of the gaming market
Aug, 2021	• Phison launches PCIe 5.0 Redriver IC PS7101 to meet the advent of high-speed transmission era
Sep, 2021	• Phison launches customized PCIe 5.0 SSD controller solution PS5026-E26
Oct, 2021	• Phison purchases green energy and continues to keep pace with the world and implement ESG and energy conservation and carbon reduction goals
Jan, 2022	• Phison Exhibits New Generation Gaming Storage Solution at 2022 CES
Jan, 2022	• Phison launches the world's first SD Express solution certified by SDA SVP
Mar, 2022	• Phison passed ISO 26262 automotive functional safety design process certification
Apr., 2022	• Seagate and Phison Broaden Partnership to Bolster Portfolio of High-Performance, High-Density Enterprise-Class Solid State Drives Optimized to Lower Data Center TCO
• May, 2022	• Phison Announces Successful Deployment of the World's First PCI-SIG Certified PCIe 5.0 Redriver IC PS7101
• May, 2022	• Phison Announces Strategic PCIe Gen5 Relationship with AMD and Micron at Computex 2022
• Jun., 2022	• Phison Announces Customizable PCIe Gen4x4 Enterprise SSDs in M.2 2280 and 22110 Form Factors - Powered by E18DC PCIe Gen4x4 NVMe Controller
• Aug., 2022	• Phison Debuts the X1 to Provide the Industry's Most Advanced Enterprise SSD Solution
• Dec., 2022	• Phison's 8TB SSD Ready for Historic Liftoff After Earning NASA Certification
• Jan., 2023	• Phison Demonstrates Latest PCIe Gen5 Innovation, E26 SSD Controller With I/O+ Technology And Signal Enhancing Redriver To Ignite Success for PCIe Gen5.0 and CXL™ 2.0 at CES 2023



# Chapter 3

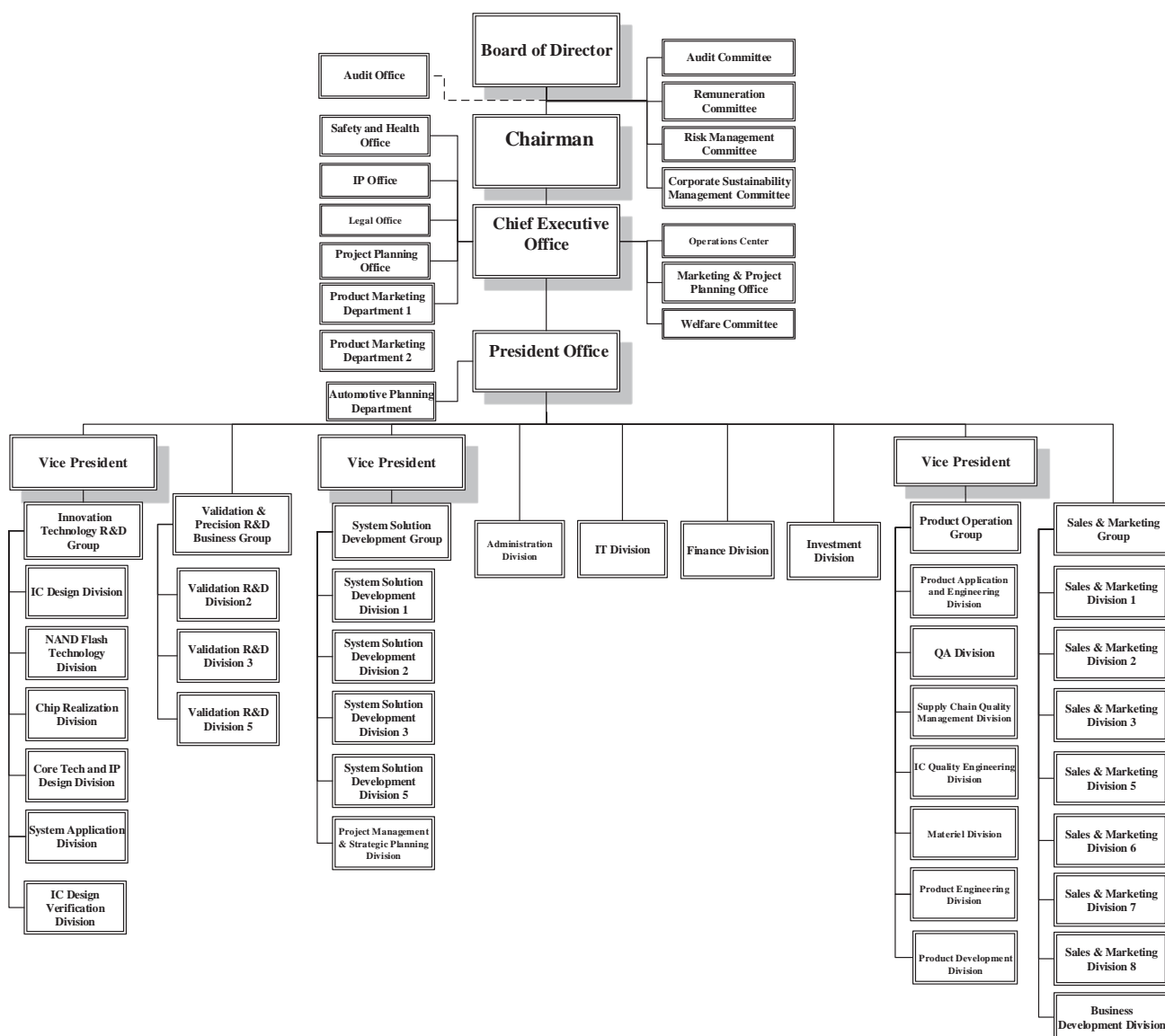
## Corporate Governance Report



# Chapter 3. Corporate Governance Report

## 3.1 Organizational Systems

### 3.1.1 Organizational Chart



### 3.1.1.2 Business Activities of Main Divisions

Major Departments	Main Duties of Each Department
Audit Office	Responsible for establishing, amending and reviewing the internal audit system; examining, reviewing and auditing the internal control system.
Corporate Sustainability Management Committee	Based on the Company's business model, identify important internal and external stakeholders and the ESG impact on society as a whole, compile stakeholder opinions and expectations, plan sustainable development projects and set performance indicators, and regularly track the results. Compile information and publish a sustainability report annually to enhance the transparency of information disclosure.
President Office Chief Executive Office	Responsible for implementing and completing the jobs assigned by the Board of Directors; establishing the operation guidance and quality policy; operating and decision-making of the Company.
Safety and Health Office	Responsible for the security and health affairs for the employees; ensuring the security of the work environment is in conformity with law.
IP Office	Responsible for the administration and review of the patents, trademarks, patent litigation and other related matters of the Company.
Legal Office	Responsible for the handling and review of all contract, insurance, legal proceedings and other related matters of the Company.
Operation Center	Responsible for formulating product pricing strategy, coordinating product production and key suppliers, and managing the usage of the company's inventory.
Marketing & Project	Responsible for market research and analysis, development strategy and marketing planning, supervision and execution.
Planning Office	Responsible for office-related projects and supervision of related costs.
product marketing	Responsible for formulating business goals and business plans for the company's product lines, and cooperating with relevant departments to implement them.
Welfare Committee	Responsible for the planning, execution and operation of activities related to employee benefits, etc.
Innovative Technology R & D Group and System Product R & D Group and Validation & Precision R & D Business Group	Responsible for product specification confirmation and product technical feasibility assessment in cooperation with the marketing business group, product software, corpus and hardware development and design works; completing new product design and validation and project plan execution, and responsible for managing and supervising chip back-end design outsourcing.
Sales and Marketing Group	Responsible for the formulation of product development and sales market strategy, product price strategy, market/competitor analysis, customer

Major Departments	Main Duties of Each Department
	returns and replenishment, and exchange issues; the processing of import and export business.
Product Operation Group	Responsible for the formulation and execution of the company's production strategy and scheduling plan; supervision, control and analysis of product yield and quality of mass-produced products, and procurement of goods. Quality inspection and analysis of import and export goods, processes, outsourced processing and other entities and processes.
Administration Division	Responsible for the operation, supervision and management of the company's human resources, general affairs, factory affairs, occupational health protection, etc.
IT Office	Responsible for the evaluation, development and maintenance of the company's information systems; responsible for the evaluation, management and maintenance of network architecture, various server systems and the development and management of information security mechanisms.
Finance Division	Responsible for the establishment, execution and management of the accounting, financial and cost operations of the company.
Investment Division	Responsible for the establishment, execution and management of the Company's investment and share operations.

## 3.2 Profile of Directors, Supervisors, General Managers, Deputy General Manager, Co-managers, Heads of Departments and Branches

### 3.2.1 Profile of Directors and supervisors

#### 3.2.1.1 Profile of Directors and supervisors

April 2, 2023; Unit: shares

Title	Nationality or Registered Place	Name	Gender Age	Date of election(appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position concurrently held at the Company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note1
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
Chairman	Taiwan	Cheng He Investment Co., Ltd.	-	2020.06.03	3years	2020.06.03	2,172,000	1.09	2,403,000	1.20	-	-	-	-	N/A	N/A	N/A	N/A	N/A	NIL
	Malaysia	Represented by: Wee Kuan Gan	Male 41-50	2021.11.18		2021.11.18	64,052	0.03	87,052	0.04	5,451	0.00	-	-	Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University Vice President of Phison Electronics Corporation	Note 2	N/A	N/A	N/A	NIL
Director	Malaysia	Chee Kong Aw Yong	Male 41-50	2020.06.03	3years	2002.02.15	3,409,745	1.71	3,498,000	1.75	100,000	0.05	422,000	0.21	Ming Chiao Tung University Founder of Phison Electronics Corporation President of Phison Electronics Corporation	Note 3	N/A	N/A	N/A	NIL
Director	Taiwan	Tzung Horng Kuang	Male 61-70	2020.06.03	3years	2008.06.13	1,408,736	0.71	1,438,736	0.72	-	-	-	-	Master of Business Administration, Greenwich University Kogen Singapore Pte Ltd Vice President of Phison Electronics Corporation	Note 4	N/A	N/A	N/A	NIL
	Taiwan	Cheng Shuo Investment Limited	-	2022.05.24	1year	2022.05.24	1,143,000	0.57	1,158,000	0.58	-	-	-	-	N/A	N/A	N/A	N/A	N/A	NIL
Director	Taiwan	Representative: Chih Jen Hsu	Male 51-60	2022.05.24	1year	2011.06.15	1,020,301	0.51	1,020,301	0.51	-	-	-	-	Chung Yuan Christian University Department of Information and	Vice Technical President of Phison Electronics Corp.	N/A	N/A	N/A	NIL

Title	Nationality or Registered Place	Name	Gender Age	Date of election (appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position concurrently held at the Company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note 1
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
															Computer Engineering Winbond Electronics Corporation Deputy Manager Founder of Phison Electronics Corporation					
Director	Taiwan	Jiunn Yeong Yang	Male 51-60	2020.06.03	3years	2020.06.03	4,549,114	2.28	4,549,114	2.28	-	-	-	-	Ph.D. of Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University Founder of Phison Electronics Corporation	N/A	N/A	N/A	N/A	NIL
Director	Japan	KIOXIA Corporation	-	2020.06.03	3years	2017.09.27	19,821,112	9.93	19,821,112	9.93	-	-	1,000	0.00	N/A	Note 5	N/A	N/A	N/A	NIL
	Japan	Representative: Hiroshi Miyachi	Male 61-70	2020.11.13	3years	2020.11.13	-	-	-	-	-	-	-	-	The University of Electro-Communications, Bachelor Toshiba Corporation, Director & General Manager of Intellectual Property Division Toshiba Electronic Devices & Storage Corporation, R&D Technology Division, Chief Fellow	Toshiba Materials Corporation, Party-time employee Kioxia Corporation, Party-time employee Toshiba Electronic Devices & Storage Corporation, Party-time employee Meiko Electronics Co., Ltd., Audit & Supervisory Board Member (outside)	N/A	N/A	N/A	NIL
Independent Director	Taiwan	Chen Wei Wang	Male 61-70	2020.06.03	3years	2014.06.17	-	-	-	-	-	-	-	-	Department of Electronics Engineering, Simplo National Yang Ming Chiao Tung University CEO of Quanta Computer Inc. President of Quanta Computer Inc.	Independent director of Electronics Simplo Technology Co. Ltd. Independent director of Pegatron Corporation	N/A	N/A	N/A	NIL

Title	Nationality or Registered Place	Name	Gender Age	Date of election(appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position concurrently held at the Company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note1
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
Independent Director	Taiwan	Wen Chiu Chung	Female 51-60	2020.06.03	3years	2020.06.03	-	-	-	-	-	-	-	-	M.S. in Accounting, Chung Yuan Christian University Auditor of Grant Thornton Taiwan Accountant of Grant Thornton Taiwan	Director of Xu Yuan Packaging Technology Co., Ltd.	N/A	N/A	N/A	NIL
Independent Director	Taiwan	Yu Lun Huang	Female 51-60	2020.06.03	3years	2020.06.03	-	-	-	-	-	-	-	-	Ph.D., Department of Computer Science and Information Engineering, National Yang Ming Chiao Tung University Ming Chiao Tung Associate Professor, Department of Electrical Engineering, National Yang Ming Chiao Tung University Consultant of Taiwan Open Course and Education Consortium	Dean of school hire Vice Academic Affairs, National Yang Ming Chiao Tung University	N/A	N/A	N/A	NIL

Note 1: The chairman of the board of directors and the general manager or equivalent (top manager) who are the same person, spouse or within the first degree of kinship should state the reason, reasonableness, necessity and response measures.

Note 2: Representative Director of OsteK Corp., Super Storage Technology Corp.; Representative Supervisor of Phisontech Electronics Taiwan Corp.

Note 3: Legal Representative Director and Chairman of Super Storage Technology Co.; Representative Director of Lianxudong Investment Co. and Phisontech Taiwan Electronics Co.; Directors of Global Flash Limited and Core Storage Electronic (Samoa) Limited; supervisor of Jyusin Investment Co..

Note 4: Legal Representative Director and Chairman of Emtops Electronics Corp.; Legal Representative Director of Microtops Design Corp., OsteK Corp.; Director of Phison Electronics Japan Corp., Power Flash (Samoa) Limited, Nextorage Corporation.

Note 5: Directors of KIOXIA Semiconductor Taiwan Corp., KIOXIA Taiwan Corp., Microtops Design Corp., Solid State System Co., Ltd.

### 3.2.1.2 Major shareholders of the institutional shareholders

April 2, 2023

Name of institutional shareholders	Major shareholders of the institutional shareholders
Kioxia Corporation	Kioxia Holdings Corporation : 100%
Chenghe Investment Co., Ltd.	Khein Seng Pua: 99.38%
Cheng Shuo Investment Limited	Khein Seng Pua: 100.00%

### 3.2.1.3 Major Shareholders of Institutional Shareholders with Corporations as Their Major Shareholders

April 2, 2023

Name of institutional shareholder	Major shareholders
Kioxia Holdings Corporation	Toshiba Corporation : 40.64%
	BCPE Pangea Cayman, L.P. : 25.92%
	BCPE Pangea Cayman2, Ltd. : 14.96%
	BCPE Pangea Cayman 1A, L.P. : 9.37%
	BCPE Pangea Cayman 1B, L.P. : 5.99%
	HOYA Corporation : 3.13%

Note: The above information is obtained from the official website of Kioxia Holdings Corporation and represents the proportion of voting shares of the company as of August 27, 2020. Official website: [kioxia-holdings.com/en-jp/about/company.html](http://kioxia-holdings.com/en-jp/about/company.html)



### 3.2.1.4 Disclosure of Directors' Professional Qualifications and Independent Directors'

#### Independence Information:

Criteria Name	Professional Qualification and Work Experience (Note1)	Independence Situation (Note 2)	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
Representative of Cheng He Investment Co., Ltd. Wee Kuan Gan	Mr. Wee Kuan Gan, now Vice President of Phison Electronics Corp., has relevant work experience in industry research and development, process, production management, etc., and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Chee Kong Aw Yong	Mr. Chee Kong Aw Yong is now the President of Phison Electronics Corp. and is one of the founders of Phison Electronics Corp. He has experience in management, research and development, innovation and other related work required by the industry, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Tzung Horng Kuang	Mr. Tzung Horng Kuang, with relevant work experience required for the Company's business, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Representative of Cheng Shuo Investment Limited Chih Jen Hsu	Mr. Chih Jen Hsu is now the Vice Technical President of Phison Electronics Corp., with relevant work experience required for the Company's business, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Representative of KIOXIA Corporation Hiroshi Miyauchi	Mr. Hiroshi Miyauchi, with relevant work experience required for the Company's business, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Jiunn Yeong Yang	Mr. Jiunn Yeong Yang, as one of the founders of Phison Electronics Corp., has relevant work experience such as research, development, and innovation required by the industry, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Wen Chiu Chung	Ms. Wen Chiu Chung, who is a graduate of the Accounting Department of the Chung Yuan Christian University, has practiced in an accounting firm and has extensive knowledge of finance,	1. Whether independent directors themselves, their spouses, their relatives within the second degree of	N/A

Criteria Name	Professional Qualification and Work Experience (Note1)	Independence Situation (Note 2)	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
	accounting and taxation. She is now the convener of the Company's Audit Committee and the Remuneration Committee. She is a member of the Risk Management Committee and the Corporate Sustainability Management Committee, and declares that she does not have any provisions of Article 30 of the Company Law.	kinship act as directors, supervisors or employees of the Company or its affiliated enterprises: None. 2. Number and proportion of shares of the Company held by the independent directors themselves, their spouses, their relatives within the second degree of kinship within the company (or in the name of others): None.	
Chen Wei Wang	Mr. Chen Wei Wang, graduated from the Department of Electronic Engineering of Yang Ming Chiao Tung University, served as the CEO and General Manager of Taiwan Quanta Computer inc., is a pioneer in the electronic technology industry, and is now an independent director of Simplo Technology Co., Ltd. and Pegatron Corporation. He has a unique view of the overall economic and industrial direction of the trend, and is currently a member of the Audit Committee and the Compensation and Remuneration Committee of the Company, declares that he does not have any of the provisions of Article 30 of the Company Law.	3. Whether the Independent Director is a director, supervisor or employee of a company with a specific relationship to the Company (see Article 3, paragraphs 1 to 8 of the Instructions for the Establishment of Independent Directors of Public Offering Companies and the Requirements to be Followed) : None.	2
Yu Lun Huang	Ms. Yu Lun Huang holds a Ph.D. in the Information Engineering Department of National Yang Ming Chiao Tung University and has served as Vice Chancellor of the University and Taiwan Open Curriculum League Consultant. She currently holds the position of Associate Professor in the Electrical Engineering Department of Jiaotong University and has rich industrial knowledge and experience. She is currently a member of the Audit Committee, the Remuneration Committee, the Risk Management Committee, and the Corporate Sustainability Management Committee of the Company, and declares that she does not have any of the provisions of Article 30 of the Company Law.	4. The amount of remuneration obtained in the last 2 years by providing business, legal, financial, accounting and other services of the Company or its affiliates: None.	N/A

Note 1: Professional qualifications and experience: Identify the professional qualifications and experience of individual directors and supervisors. If a person is a member of the Audit Committee and has accounting or financial expertise, he or she should disclose his or her accounting or financial background and work experience, and also state whether they are under the provisions of Article 30 of the Company Law.

Note 2: Independent directors should clarify whether they are independent, including but not limited to whether themselves, their spouses, their relatives within the second degree of kinship within the scope of the company or its affiliated enterprises are directors, supervisors or employees of the company; whether themselves, their spouses, their relatives within the second degree of kinship within the scope of the company (or in the name of another person) hold the number and proportion of shares of the company; whether they are directors, supervisors or employees of companies with specific relationships with the company (see Article 3, Paragraph 1, Subparagraph 5~8 of the Regulations on the Establishment of Independent Directors of Public Companies and Matters to be Followed); and the amount of remuneration received for providing business, legal, financial, accounting and other services of the company or its affiliated enterprises in the last 2 years.

#### 3.2.1.5 Board Diversity and Independence:

In the Code of Practice on Corporate Governance, the Company stipulates that the composition of the Board of Directors shall be diversified and shall not be restricted by sex, race or nationality. In addition to having the knowledge, skills and abilities necessary for the performance of duties, the overall ability of the Board of Directors to achieve the ideal goal of corporate governance shall include: 1. Operational judgment. 2. Accounting and financial analysis capacity. 3. Operational management capabilities. 4. Crisis management capabilities. 5. Industry knowledge. 6. Global market viewpoint 7. Leadership. 8. Diversified professional background such as decision-making ability. There are eight current directors, including three independent directors, two female directors and four employee directors (representing 33.3%, 22.2% and 44.4% of all directors, respectively), and the Company will set 20% of female directors as target. As of the end of the 2022, there were two directors aged 41-50 years, and four other directors aged 51-60 years, all of whom were over 61 years old. Among them, independent directors met the specifications of the Financial Services Commission and the Securities and Exchange Commission, and there were no matters stipulated in Paragraphs 3 and 4 of Article 26-3 of the Securities and Exchange Act. Please refer to the information on the education, gender, professional qualifications, work experience and diversity of each director. Please refer to the information on Profile of Directors and supervisors in 3.2.1 of the Corporate Governance Report and the following table.

Diversified Core Competences		Basic Composition				Industrial Experience/Expertise										
		Nationality	Gender	Director as Employee	Independent Directors Term of office (years)			Operational judgment capability	Accounting and financial analysis capabilities	Operations management capacity	Crisis management capability	Industrial knowledge	Global market viewpoint	Leadership skills	Decision-making capability	
					Less than 3 years	3 to 9 years	More than 9 years									
Name of Directors	Chairman	Malaysia	Male	✓				✓		✓	✓	✓		✓		✓
	Director	Malaysia	Male	✓				✓	✓	✓	✓		✓			✓
	Director	Taiwan	Male	✓				✓		✓	✓	✓	✓	✓		✓
	Director	Taiwan	Male					✓				✓	✓			✓
	Director	Taiwan	Male	✓				✓		✓	✓		✓			✓
	Director	Japan	Male					✓			✓			✓		✓
	Independent Director	Taiwan	Female		✓					✓	✓		✓	✓	✓	✓
	Independent Director	Taiwan	Male			✓		✓		✓	✓	✓	✓	✓	✓	✓
	Independent Director	Taiwan	Female			✓					✓	✓			✓	✓

### 3.2.2 Information of the general manager, deputy general manager, associate, and directors of various departments and branches

April 2, 2023; Unit: share

Title	Nationality	Name	Gender	Election (appointment) Date:	Shareholding		Spouse, minor children Shareholding		Held under the names of other parties Shareholding		Primary Experience (Education)	Other Position Concurrently Held at the Company and Other Companies	Managers who are Spouses or Within Two Degrees of Kinship			Remarks Note1
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship	
CEO	Malaysia	Khein Seng Pua	Male	2008.10.01	5,173,472	2.59	806,262	0.40	4,789,144	2.40	Master's Degree in Motor and Control Engineering, National Yang Ming Chiao Tung University Founder of Phison Electronics Corporation	Note 2	N/A	N/A	N/A	NIL Circumstances
President	Malaysia	Chee Kong Aw Yong	Male	2008.10.01	3,498,000	1.75	100,000	0.05	422,000	0.21	Master of Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University Founder of Phison Electronics Corporation	Note 3	N/A	N/A	N/A	NIL Circumstances
Vice President of Technology	Taiwan	Chih Jen Hsu	Male	2012.08.01	1,020,301	0.51	0	0.00	0	0.00	Department of Information and Computer Engineering, Chung Yuan Christian University Winbond Electronics Corporation Assistant Manager Founder of Phison Electronics Corporation	N/A	N/A	N/A	N/A	NIL Circumstances
Vice President	Malaysia	Wee Kuan Gan	Male	2012.02.24	87,052	0.04	5,451	0.00	0	0.00	Department of Electronics and Electrical Engineering, National Yang Ming Chiao Tung University	Note 4	N/A	N/A	N/A	NIL Circumstances

Title	Nationality	Name	Gender	Election (appointment) Date:	Shareholding		Spouse, minor children Shareholding		Held under the names of other parties Shareholding		Primary Experience (Education)	Other Position Concurrently Held at the Company and Other Companies	Managers who are Spouses or Within Two Degrees of Kinship			Remarks Note 1
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship	
Vice President	Taiwan	Kuo Yi Cheng	Male	2022.03.01	44,134	0.02	1,558	0.00	0	0.00	Master's Degree, Department of Electrical Engineering, Taiwan University of Science and Technology ALi Corporation Engineer Faraday Technology Corporation Engineer	Note 5	N/A	N/A	N/A	NIL Circumstances
Vice President	Taiwan	Zhong Xun Ma	Male	2012.08.01	5,000	0.00	0	0.00	0	0.00	Master's Degree, Department of Physics, National Central University Deputy General Manager of Ji Yuan Technology Corp.	Note 6	N/A	N/A	N/A	NIL Circumstances
Director	Taiwan	Pao Feng Chen	Female	2020.03.27	0	0.00	0	0.00	0	0.00	University of Wales Master's Degree in E-commerce Management	N/A	N/A	N/A	N/A	NIL Circumstances
Senior Special Assistant and Chief and Operating Officer	Taiwan	Zhi Chyang Yu	Male	2021.02.06	0	0.00	0	0.00	0	0.00	M.S. of Risk Management, National Chengchi University National Union Electronics Legal Director	Note 7	N/A	N/A	N/A	NIL Circumstances

Note 1: The chairman of the board of directors and the general manager or equivalent (top manager) who are the same person, spouse or within the second degree of kinship should state the reason, reasonableness, necessity and response measures.

Note 2: Legal Representative Director and Chairman of Lianxudong Investment Co., Osteck Corp., Phisontech Electronics Taiwan Corp.; Legal Representative Director of Emtops Electronics Corp.; Director of Global Flash Limited, EpoStar Electronics (BVI) Corporation, and Core Storage Electronic (Samoa) Limited.

Note 3: Legal Representative Director and Chairman of Super Storage Technology Corp.; Representative Director of Lianxudong Investment Co., and Phisontech Taiwan Electronics Co.; Director of Global Flash Limited and Core Storage Electronic (Samoa) Limited; Supervisor of Jysin Investment Co..

Note 4: Legal Representative Director of Osteck Corp., Super Storage Technology Corp.; Legal Representative Supervisor of Phisontech Taiwan Electronics Co..

Note 5: Legal Representative of Hefei Ruhan Electronic Technology Co..

Note 6: Supervisor of Microtops Design Corp.; Director of the Legal Representative of Emtops Electronics Corp..

Note 7: Legal Representative Supervisor of Emtops Electronics Corp..

### 3.3 Remuneration paid to directors, supervisors, general manager and deputy general manager in the most recent year

### 3.3.1 Remuneration of Directors and Independent Directors

[illegible]

Title	Name	Remuneration Paid to Directors				Total amount of A, B, C and D and percentage of net income after tax (Note 2)		Relevant Remuneration Received by Directors as Employees						Total amount of seven items A, B, C, D, E, F and G and the proportion to net income after tax (Note 2)		Remuneration from Invested Companies Other than Subsidiaries or the Parent Company			
		Base Compensation (A)		Severance and Retirement Pension (B)		Directors Compensation (C) (Note1)		Business Execution Expenses (D)		Salaries, Bonuses and Special Expenses, etc. (E) (Note 4)		Severance and Retirement Pension (F) (Note3)		Employees Compensation (G) (Note1)					
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	Cash Amount	Stock Amount				
		business, etc.): None.																	

Note 1: On March 15, 2023, the Board of Directors resolved to allocate a total of NT \$1,000,000 thousand in employee remuneration and NT \$35,000 thousand in directors' remuneration.

Note 2: Net income after tax refers to the net income after tax in individual financial statements of NT \$5,401,146 thousand in the 2022 annual financial report.

Note 3: This is a retirement pension paid in accordance with the law.

Note 4: Refers to the actual provision of salaries, job premiums, severance pay, various bonuses, incentives, travel expenses, special expenses, various allowances, dormitories, vehicles and other in-kind received by directors as employees, plus the certified remuneration for employee stock options recognized under IFRS 2 share-based payments.

Table of Remuneration Range

Remuneration Range of Board of directors	Name of Directors									
	Total Remuneration (A+B+C+D)					Total Remuneration (A+B+C+D+E+F+G)				
	The Company		Companies in the consolidated financial statements			The Company		Companies in the consolidated financial statements		
Less than NT\$1,000,000	0		0			0		0		
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	0		0			0		0		
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	0		0			0		0		
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	Chee Kong Aw Yong, Tzung Hong Kuang, Cheng Shuo Investment Limited. Representative: Chih Jen Hsu, Jiunn Yeong Yang, KIOXIA Corporation, Chen Wei Wang, Wen Chiu Chung, Yu Lun Huang		Jiunn-Yeong Yang, KIOXIA Corporation, Chen Wei Wang, Wen Chiu Chung, Yu Lun Huang							
NT\$5,000,000 (inclusive) to 10,000,000 (not inclusive)	Chenghe Investment Co., Ltd. Representative: Representative: Wee Kuan Gan,		Tzung Hong Kuang, Cheng Shuo Investment Co., Ltd Representative: Chih Jen Hsu							
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0		0			0		0		
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0		0			0		0		
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0		0					Cheng He Investment Co., Ltd Representative: Wee Kuan Gan		
NT\$50,000,000 (inclusive) to 100,000,000 (not inclusive)	0		0			0		0		
More than NT\$100,000,000	0		0					Chee Kong Aw Yong		
Total	9		9			9		9		



### 3.3.2 Remuneration of the President and Vice Presidents

Unit: Thousands NTD

Title	Name	Salary (A)		Severance and Retirement Pension (B) (Note3)		Bonus and Extraordinary expenses, etc. (C) (Note4)		Employee Compensation (D) (Note1)				Total amount of A, B, C and D and percentage of net income after tax (Note 2)		Remuneration from Invested Companies Other than Subsidiaries or the Parent Company
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements			
						Cash Amount	Stock Amount	Cash Amount	Stock Amount					
CEO	Khein Seng Pua													N/A
President	Chee Kong Aw Yong													
Vice President	Wee Kuan Gan	22,250	22,250	456	456	190,389	190,389	104,500	0	104,500	0	317,595 5.88%	317,595 5.88%	
Vice President of Technology	Chih Jen Hsu													
Vice President	Kuo Yi Cheng (Note 5)													
Vice President	Zhong Xun Ma													

Note 1: On March 15, 2023, the Board of Directors resolved to allocate a total of NT \$1,000,000 thousand in employee remuneration.

Note 2: Net income after tax refers to the net income after tax in individual financial statements of NT \$5,401,146 thousand in the 2022 annual financial report.

Note 3: This is a retirement pension paid in accordance with the law.

Note 4: Refer to the salary, salary increment, severance pay, bonuses, incentive payments, travel disbursement, special disbursement, allowances, dormitory, car and other compensation expenses received by the President and Vice President, plus the employee stock option premiums recognized in accordance with the IFRS2 share base.

Note 5: Vice President Kuo Yi Cheng took office on March 1, 2022.

Table of Remuneration Range

Remuneration Range of President and Vice Presidents	Name of President and Vice President	
	The Company	Companies in the consolidated financial statements
Less than NT\$1,000,000	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	0	0
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	0	0
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	Chih Jen Hsu	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	Wee Kuan Gan, Zhong Xun Ma, Kuo Yi Cheng	
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	Chee Kong Aw Yong	
NT\$50,000,000 (inclusive) to 100,000,000 (not inclusive)	Khein Seng Pua	
More than NT\$100,000,000	6	6
Total		

### 3.3.3 Remuneration of Management Team

Unit: Thousands NTD

Title		Name	Stock	Cash	Total	Percentage of total compensations to NIAT (%)
Manager	CEO	Khein Seng Pua	-	120,000	120,000	2.22
	President	Chee Kong Aw Yong				
	Vice President of Technology	Chih Jen Hsu				
	Vice President	Wee Kuan Gan				
	Vice President (Note 1)	Kuo Yi Cheng				
	Vice President	Zhong Xun Ma				
	Senior Special Assistant and Chief Operating Officer	Zhi Chyang Yu				
	Director	Pao Feng Chen				
	Senior Special Asst. (Note 2)	Tzung Horng Kuang				
	Senior Director (Note 3)	Shu Hui Tsai				
	Senior Chief (Note 4)	Huei Chen Tsay				
	Senior Branch Director and Investment Director (Note 4)	Shu Hua Chiu				
	Director (Note 4)	Li Fu Huang				
	Director (Note 4)	Hsiu Chin Liu				

Note 1: Vice President Kuo Yi Cheng took up his duties on March 1, 2022.

Note 2: Senior Special Asst. Tzung Horng Kuang is qualified director staff.

Note 3: Senior Chief Shu Hui Tsai was dismissed on February 1, 2022.

Note 4: Senior Chief Huei Chen Tsay, Senior Branch Director and Investment Director Shu Hua Chiu, Director Li Fu Huang and Director Hsiu Chin Liu were dismissed on September 1, 2022.

**3.3.4 Comparison of the analysis of the ratio of total remuneration paid to directors, supervisors, general manager and deputy general manager of the Company in the last two years to the net income after tax of individual or individual financial statements, and the relationship between the policies, standards and combinations for the payment of remuneration, the procedures for determining remuneration, and the operational performance and future risks of the Company and all consolidated reports, respectively**

3.3.4.1 The analysis and comparison of the percentage of total remuneration for Directors, Supervisors, Presidents and Vice Presidents to the net profits after tax of individual or individual financial statements in the most recent two fiscal years is listed in this section.

Unit: %

Title \ Items		Ratio of Total Remuneration to Net Income After Tax of Individual Financial Statement (%)				Increasing (Decreasing) Percentage% The Company ( % )	Increasing (Decreasing) Percentage% Companies in the consolidated financial statements ( % )
		2021		2022			
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements		
Director		3.80	3.80	3.18	3.18	(0.62)	(0.62)
President and Vice President		4.36	4.36	5.88	5.88	1.52	1.52

(1) The Company's Articles of Incorporation regulate the following matters:

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

Employee's remuneration may be distributed in shares or cash, and compensation of directors shall be paid in cash.

The term "profit" as "pre-tax profits before deducting the distributed employees and directors' remuneration."

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

- B. The Company earned a profit of NT \$7,267,623,980 in 2022 years (profit refers to profit before profit before tax deducting employee remuneration and directors' remuneration). On March 15, 2023, the Board of Directors resolved that the remuneration of employees who had been profitably distributed since 2022 years was NT \$1,000,000,000 (accounting for about 13.76% of the profit earned in 2022

years) and the remuneration of directors amounted to NT \$35,000,000 (accounting for about 0.48% of the profit earned in 2022-years), all in cash.

(2) Analysis of the ratio of the total remuneration paid to directors of the Company in the last two years to the net income after tax of individual or individual financial statements of the Company and all companies in the consolidated report

- A. The analysis and comparison of the percentage of total remuneration for Directors to the net profits after tax in the individual financial reports in the most recent two fiscal years is listed in this section.
  - a. In accordance with Article 19 of the Company's Articles of Association, the remuneration paid to directors by the Company in 2022 years shall be 8% to 19% of the annual profit of the Company shall be allocated to the remuneration of employees and not more than 1.5% to the remuneration of directors. However, when the Company has accumulated losses, the amount of compensation should be retained in advance.” Regulation handling.
  - b. The ratio of the total remuneration paid to directors of the Company in 2022 to the net income after tax of individual or individual financial statements of the Company and all the companies in the consolidated statements decrease as compared with that of 2021, mainly due to the decrease in the Company earned a profit in 2022 years.
- B. Analysis of the ratio of the total remuneration paid to the President and Vice President of the Company in the last two years to the net income after tax of individual or individual financial statements of the Company and all companies in the consolidated report
  - a. The remuneration paid by the Company to the President and Vice President in 2022 years shall be handled by the Remuneration and Compensation Committee after being reported to the Board of Directors for resolution.
  - b. The ratio of total remuneration paid to the President and Vice President of the Company in 2022 of the Company and all companies in the consolidated statements to the net profit after tax of the individual or individual financial statements increased as compared with 2021, mainly due to the remuneration payment policy of salary and bonus balance, referring to the situation where the position is paid at the normal level in the same industry, the scope of authority and responsibility of the position within the Company, and the remuneration for the contribution to the operating objectives of the Company, including the fluctuating bonus adjusted according to the operating result.

### 3.3.4.2 Remuneration payment policy, standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

- (1) The policy of remuneration payment to Directors standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

In accordance with Article 19 of the Company's Articles of Incorporation, the Company shall allocate no more than 1.5% of the Company's annual profits as the remuneration for directors and the Company does not give any remuneration to directors other than that the abovementioned. The procedures of setting remuneration is based on the results of the annual board of directors' performance evaluation, and consideration is given to the period and duration, the scope, manner and content of the evaluation of the self- (or peer) evaluation of the board of directors, which should be disclosed by listed companies (please refer to page 32-34 of this Annual Report), including the evaluation items such as the number of board meetings held, attendance of directors at board meetings, and directors' on-going education. In 2022, the Company held 10 board meetings, the average attendance rate of all directors at board meetings was 98.84%, the actual attendance rate of each director at board meetings was over 80%, and each director's on-going education in 2022 was in line with the number of hours of study required for directors of listed companies (please refer to pages 101-102 of this Annual Report). The performance of the Board of Directors shall be evaluated accordingly, and after the Remuneration Committee has reviewed individually, their recommendations shall be submitted to the Board of Directors for review. The remuneration system shall be reviewed from time to time in accordance with the actual operating conditions and relevant laws and regulations in order to strike a balance between sustainable management and risk control.

- (2) Policy of remuneration payment to president and vice presidents, standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

The Company pays remuneration to the CEO, General Manager, Deputy General Manager and other managers in accordance with the achievement rate of earnings per share (EPS) + return on equity (ROE), which is the financial indicator of the annual plan, as a performance appraisal, and links the relevant remuneration; and according to the organizational rules of the Remuneration and Compensation Committee, the remuneration is paid in accordance with the remuneration paid at the usual level for the position in the same industry, the scope of authority of the position within the Company and the contribution to the operational objectives of

the Company. For the establishment procedure, apart from referring to the entire operation performance of the Company, the individual input time, assumed responsibility, personal goal achievement, performance for assuming other posts, salary paid to equivalent positions in recent years by the Company, the achievement of short-term and long-term business goals, and financial status shall be taken as the basis; for the remuneration, after reviewing by Remuneration Committee individually, it will be distributed after the proposal is submitted to the Board of Director for discussion and decision.

### 3.4 Implementation of Corporate Governance

#### 3.4.1 Board of Directors

The Board of Directors held a total of 10 meetings in 2022-(A), and the attendance of directors was as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Percentage of Actual Attendance (%) (B/A)	Remarks
Chairman	Cheng He Investment Co., Ltd. Representative: Wee Kuan Gan	10	0	100.00	
Director	Chee Kong Aw Yong	10	0	100.00	
Director	Tzung Horng Kuang	10	0	100.00	
Director	Cheng Shuo Investment Limited Represented by: Chih Jen Hsu	6	0	100.00	2022.05.24 Inauguration
Director	Jiunn Yeong Yang	10	0	100.00	
Director	KIOXIA Corporation Representative: Hiroshi Miyauchi	9	1	88.89	
Independent Director	Chen Wei Wang	10	0	100.00	
Independent Director	Wen Chiu Chung	10	0	100.00	
Independent Director	Yu Lun Huang	10	0	100.00	

Status of attendance by independent directors of various boards of directors in 2022 years

◎: Attendance in person ☆: Entrusted attendance \*: Not attended

2022	Ninth Session Twenty-first Time	Ninth Session Twenty-Send Time	Ninth Session Twenty-third Time	Ninth Session Twenty-fourth Time	Ninth Session Twenty-fifth Time
Wen Chiu Chung	◎	◎	◎	◎	◎
Chen Wei Wang	◎	◎	◎	◎	◎
Yu Lun Huang	◎	◎	◎	◎	◎



2022	Ninth Session Twenty-sixth Time	Ninth Session Twenty-seventh Time	Ninth Session Twenty-eighth Time	Ninth Session Twenty-Ninth Time	Ninth Session Thirtieth Time
Wen Chiu Chung	◎	◎	◎	◎	◎
Chen Wei Wang	◎	◎	◎	◎	◎
Yu Lun Huang	◎	◎	◎	◎	◎

Other items to be recorded:

1. If the board of directors operates under any of the following circumstances, it shall specify the date of the board of directors, the period, the content of the proposal, the opinions of all independent directors, and the handling of the company's opinions on independent directors:
  - (1) Matters referred to in Article 14-3 of the Securities and Exchange Act: The Company has established an Audit Committee, which is not subject to Article 14.3 of the Securities and Exchange Act.
  - (2) Other matters involving objections or expressed reservations by Independent Directors that were recorded or stated in writing that require a resolution by the Board of Directors : None.
2. If there are Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motion, causes for avoidance and voting should be specified:

Date of the Meeting	Content of motion	Name of Directors	Recusal Causes for Avoidance	Participation in voting (Note)
2022.01.21	The Company's plan to purchase a plot of land at Guangyuan Section, Zhunan Township, Miaoli County	Director Chee Kong Aw Yong	Stakeholder of the Motion	No
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Director Wee Kuan Gan, Director Chee Kong Aw Yong		
2022.03.04	Review of the annual fixed salary adjustment and payment plan for managers of the Company	Director Wee Kuan Gan, Director Chee Kong Aw Yong		
2022.07.29	Early termination of the lease of the space locating on the 1F floor of SUPER STORAGE TECHNOLOGY CORPORATION's building	Director Chee Kong Aw Yong		
	Reviewed the periodic performance evaluation and performance incentive bonus for directors and managers of the Company and the payment of remuneration for directors' remuneration as well as employees' remuneration for 2021.	Director Wee Kuan Gan, Director Chee Kong Aw Yong, Director Tzung Horng Kuang, Director Chih Jen Hsu, Director Jiunn Yeong Yang, Director Kioxia Corporation, Independent Director Wen Chiu Chung, Independent Director ChenWei Wang, Independent Director Yu Lun Huang		
2022.08.19	Proposed cancellation of the register of managers of the first issue of employee stock options issued by the	Director Wee Kuan Gan,		

	Company in 2021			
	The List of first issuing Employee Stock Option under the “FY2022 Employee Stock Option Plan” for managerial officers	Director Wee Kuan Gan,		

Note: Directors who are in interest conflict have avoided the discussions and voting.

3. TWSE/TPEX Listed Companies shall disclose information including the evaluation period and duration, evaluation scope, method and evaluation content of self (or peer) evaluation of the Board of Directors:

Assessments Period	Assessments Period	Assessments Scope	Method	Content	Result
Once a year	January 1, 2022 to December 31, 2022	It includes the overall board of directors, individual board members and functional committees such as the audit committee and the Remuneration committee.	Internal self-assessment of the board of directors.	<p>(1) The measurement items of the performance evaluation of the board of directors include the following five major orientations:</p> <p>A. Participation in the operation of the Company.</p> <p>B. Improvement of the quality of the board of directors' decision making.</p> <p>C. Composition and structure of the Board of Directors.</p> <p>D. Election and Continuous Improvement of Directors.</p> <p>E. Internal controls.</p> <p>(2) The measurement items of the performance appraisal of directors include the following six major aspects:</p> <p>A. Alignment of the goals and missions of the Company.</p> <p>B. Understanding of the director's roles and</p>	<p>(1) The performance evaluation results of the board of directors show the board of directors has positive comments on the efficiency and effectiveness of the operation of various indicators.</p> <p>(2) The performance evaluation results of directors show the directors have positive comments on the efficiency and effectiveness of the operation of various indicators</p> <p>(3) The performance evaluation results of the audit committee show that the audit committee has a positive evaluation of the efficiency and effectiveness of the operation of various indicators.</p> <p>(4) The performance evaluation results of the Remuneration Committee show that the Remuneration Committee has a</p>

					<p>responsibilities.</p> <p>C. Participation in the operation of the Company.</p> <p>D. Management of internal relationship and communication.</p> <p>E. The director's professionalism and continuing education.</p> <p>F. Internal controls.</p> <p>(3) The five main criterion of performance evaluation of the Company's Audit Committees:</p> <p>A. Participation in the operation of the Company.</p> <p>B. Awareness of the duties of the Audit Committees.</p> <p>C. Improvement of quality of decisions made by the Audit Committees.</p> <p>D. Makeup of the Audit Committees and election of its members.</p> <p>E. Internal controls.</p> <p>(4) The four main criterion of performance evaluation of the Company's Remuneration Committee:</p> <p>A. Participation in the operation of the Company.</p> <p>B. Awareness of the duties of the Remuneration Committee.</p> <p>C. Improvement of quality of decisions made by the Remuneration Committee.</p> <p>D. Makeup of the</p>	<p>positive evaluation of the efficiency and effectiveness of the operation of various indicators.</p>
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				Remuneration Committee and election of its members.	
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4. Goals of the current and the recent years to improve the functions of Board of Directors (such as establishing audit committee, improving the information disclosure) and evaluation of the implementation:

(1) Improve the functions of Board of Directors:

A. The Board of Directors was operated based on the "Rules of Procedure for Board of Directors Meetings" of the Company.

B. On November 12, 2020, the Company established the "Board of Directors' Performance Evaluation Method" to conduct annual performance evaluation of the Board of Directors. The evaluation of the Board of Directors' performance for the year 2022 was completed and the results were reported to the Board of Directors on March 15, 2023.

C. Directors' ongoing pursuit of corporate governance-related courses: The Company arranges annual directors' corporate governance or current affairs-related refresher courses to facilitate directors' access to relevant information in order to maintain their core values and professional strengths and abilities.

D. The Company encourages each director to actively participate in any relevant events to the operation of the Board, and the annual attendance rate of each director at the Board of Directors' meetings (excluding proxy attendance) should not be less than 80% and included in the board's performance appraisal project.

(2) Evaluation of the implementation:

A. The Company reveals its finance and business information on the Taiwan Stock Exchange Market Observation Post System and the Company's website to ensure the information disclosure; the attendance of Directors to Board of Directors and the advanced training of directors were also disclosed on the Taiwan Stock Exchange Market Observation Post System or the Company's website, as well as the communication summary of Independent Director and accountant, and meetings between the Independent Director and audit officer to disclose the information and improve the governance of the Company.

B. The Company is composed of all independent directors including the Audit Committee, the Remuneration Committee, the Risk Management Committee, the Corporate Sustainability Management Committee and other functional committees to assist the Board of Directors in the performance of its supervisory duties, improve the Company's corporate governance and strengthen management functions.

### 3.4.2 Audit Committee Operations

(1) The Company's Audit Committee, composed of 3 members, was established on June 3, 2020.

(2) The term of office of the members of the Board of Directors: June 3, 2020 to June 2, 2023. The most recent annual meeting of the Audit Committee was held 10 times (A).

The qualifications and attendance of the members are as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance (%) (B/A)	Remarks
Convener	Wen Chiu Chung	10	0	100.00	
Independent Director	Chen Wei Wang	10	0	100.00	
Independent Director	Yu Lun Huang	10	0	100.00	

Other items to be recorded:

#### 1. Annual Work Focus and Functional Authorities of the Audit Committee:

(1) The primary function of the Audit Committee is the supervision of the items listed below

- A. Fair presentation of the financial reports of the Company.
- B. The hiring (and dismissal), independence, and performance of certificated public accountants of the Company.
- C. The effective implementation of the internal control system of the Company.
- D. Compliance with relevant laws and regulations by the Company.
- E. Management of the existing or potential risks of the Company.

(2) The duties of the Audit Committee are as follows:

- A. The adoption of or amendments to the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
- B. Assessment of the effectiveness of the internal control system.
- C. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as Procedures for Acquisition or Disposal of Assets, Procedures for Engaging in Derivatives Trading, Procedures for Lending Funds to Other Parties, Procedures for Endorsement and Guarantee.
- D. Matters in which a director is an interested party.
- E. Asset transactions or derivatives trading of a material nature.
- F. Loans of funds, endorsements, or provision of guarantees of a material nature.

- G. The offering, issuance, or private placement of any equity-type securities.
- H. The hiring or dismissal of a certified public accountant, or their compensation.
- I. The appointment or discharge of a financial, accounting, or internal audit officer.
- J. Annual financial reports signed by Chairman, Managerial Officer and Accounting Officer.
- K. Other significant matters as stipulated by the Company or the competent authority.

2. If the Audit Committee operates under any of the following circumstances, it shall specify the date of convening of the Audit Committee, the period, the content of the proposal, the content of the objections, reservations or major recommendations of the independent directors, the results of the resolutions of the Audit Committee and the handling of the opinions of the Company on the Audit Committee.

(1) Matters referred to in Article 14-5 of the Securities and Exchange Act:

Convening Date (by period)	Content of motion	Contents of objections, reservations or major recommendations by independent directors	Results of the resolution	The Company's Response
2022.01.21 (1st Session, 17th time)	(1) The credit line of banks for the Company	N/A	After being confirmed by the chairman, all attending members passed without objection and submitted to the board of directors for discussion.	The motion was approved.
	(2) The credit line of foreign exchange and derivatives for the Company			
	(3) The Company's plan to purchase a plot of land at Guangyuan Section, Zhunan Township, Miaoli County			
	(4) The Company's plan to participate in a bidding of Miaoli County Government to bid for a plot of land at Datong Section, Zhunan Township, Miaoli County			
2022.03.04 (1st Session, 18th time)	(1) The Company's remuneration distribution plan of 2021 for employees and directors			
	(2) The Company's business report and financial statements of 2021			
	(3) The Company's earnings distribution statement of 2021			
	(4) The Company's statements of distributed cash dividends from earnings for the second half of 2021			
	(5) The Company's operation plan for 2022			
	(6) The credit line of banks for the			

		Company				
		(7) The credit line of foreign exchange and derivatives for the Company				
		(8) The Company's Statement of Internal Control System for 2021				
		(9) Partial amendment to the Company's "Production Cycle", "Purchase and Payment Cycle" and "Approval Authority Table"				
		(10) The Company's plan not to proceed with the private placement of common shares decided to be issued at 2021 regular meeting of shareholders				
		(11) The Company's private placement of common shares				
		(12) Partial amendment to the Company's "Procedures for Acquisition or Disposal of Assets"				
		(13) Partial amendment to the Company's "Procedures for Lending Funds to Other Parties"				
		(14) Partial amendment to the Company's "Procedures for Endorsement and Guarantee"				
		(15) Designation of the special seal custodian for the Company's seal for endorsement and guarantee				
	2022.04.07 (1st Session, 19th time)	(1) Partial amendment to "Regulations for the Employee Welfare Committee" and "Implementation Measures for the Employee Welfare Committee" of the Company's internal system				
		(2) Partial amendment to the Company's "Articles of Association"				
		(3) Partial amendment to "Rules of Procedure for Shareholders' Meeting"				
	2022.05.06 (1st Session, 20th time)	(1) The Company's 2022 1st quarter financial statements				
		(2) The credit line of banks for the Company				
		(3) The credit line of foreign exchange and derivatives for the Company				
		(1) The Company proposes to				



	2022.06.02 (1st Session, 21th time)	exchange its shares in UD info Corp. for new shares issued by UD info Corp.				
		(2) The Company proposes to establish a joint venture with Emtops Electronics Corp., Ltd., a 100%-owned subsidiary of the Company, to establish an Indian subsidiary.				
	2022.07.15 (1st Session, 22th time)	(1) The Company proposes to repurchase the issued shares of the Company and transfer them to the employees				
		(2) The Company proposes to formulate the “FY2022 Employee Stock Option Plan and Share Subscription Procedures”				
	2022.07.29 (1st Session, 23th time)	(1) Financial Statements and Business Report of the Company for the Second Quarter (First Half of the Year) of 2022				
		(2) Earnings Distribution Table for the first half of 2022				
		(3) The credit line of banks for the Company				
		(4) The credit line of foreign exchange and derivatives for the Company				
		(5) Early Termination of the Lease of the Building on the 1st Floor of Super Storage Technology Corp.(SSTEK), which is a 1st-tier sub-subsidiary of the Company				
		(6) Partial amendment to the “Internal Audit System” of the Company				
		(7) Preparation of the Company’s “Procedures for Audit of Measures for the Transfer of the Repurchased Shares to Employees”				
	2022.08.19 (1st Session, 24th time)	(1) The Company proposes to authorize its representative to register the establishment of the Indian subsidiary				
		(2) Proposal of the cancellation of the employee stock option certificates issued by the Company for the first time in Year 2021				
		(3) The Company's register and the subscription price list for the first issue of employee stock option certificates under the “FY2022 Employee Stock				

		Option Plan and Share Subscription Procedures”				
		(4) The Company proposes to repurchase the issued shares of the Company and transfer them to the employees, and revise the Measures for the Transfer of the Repurchased Shares to Employees" in accordance with the requirements of the Financial Supervisory Commission.				
	2022.11.04 (1st Session, 25th time)	(1) The Company's financial statements for the 3rd quarter of 2022				
		(2) The Company proposes to evaluate the CPA independence and suitability				
		(3) The credit line of banks for the Company				
		(4) The credit line of foreign exchange and derivatives for the Company				
		(5) Partial amendment to “Regulations for the Employee Welfare Committee” of the Company’s internal system”				
		(6) Formulation of the “Information and Communication Security Control Procedures” and “Information and Communication Security Control Audit Procedures” of the Company				
	2022.12.20 (1st Session, 26th time)	(1) The Company proposes to formulate the “Operation Procedures for Handling Internal Material Information of Phison Electronics Corporation”				
		(2) Formulation of the Company's “Internal Material Information Processing Audit Procedure”				
		(3) Formulation of the Company's “General Policy for Prior Approval of Non-Convinced Services”				
		(4) Formulation of the “Tax Governance Policy” of the Company				
		(5) Partial amendment to the Company’s accounting system regulations				

- (2) Except as otherwise disclosed above, any other proposals which failed to obtain the approval of the Audit Committee, but were approved by two-thirds of the directors: there is no such case.
3. If there were independent directors who abstained from voting due to conflict of interest, the independent directors' names, contents of the proposal, and causes of abstention should be specified: there is no such case.
4. Communication between independent directors and internal audit head and accountants:
- (1) Communication between independent directors and internal audit Head
- The nature of the meetings between independent directors and internal audit head: separate meetings
- Frequency of communication between independent directors and internal audit head (without the presence of general directors and management): in principle, once a year
- The Audit Office has conducted the "Communication Meeting between Independent Directors and Audit Head" on November 4, 2022, and tracked and improved upon the recommendations of the Independent Directors.
- (2) Communication between independent directors and certified accountants (at least 4 separate meetings per year without management participation)

Date	Communication Points	Communication Results
2022.03.04	1. The CPA state they and the firm have follow the rule of CPA independences. 2. The CPA explains the responsibilities of the BODs and the Audit Committee to governance the Company. 3. The CPA explains their audited results of the Company's financial statements of 2021; including the scope and method of the audit, key audit matters and the company's governing situation, of related parties. 4. The CPA explains the recently rules or Interpretations issued by competent authorities. 5. The CPA responds and discusses the questions Independent Directors raised.	The CPA issued "unqualified audited reports" to the company's 2021 financial reports. The Independent Directors have understood the accountant's explanations and has no opinion on the audit matter and the audit conclusion.
2022.05.06	1. The CPA state they and the firm	The CPA issued "qualified

	<p>have follow the rule of CPA independences.</p> <p>2. The CPA explains the responsibilities of the CPA firm 、 the BODs and the Audit Committee to governance the Company.</p> <p>3. The CPA explains their reviewed results of the Company's financial statements of 1Q/2022; including the scope and method of the review, key review matters and the company's governing situation, of related parties.</p> <p>4. The CPA explains the recently rules or Interpretations issued by competent authorities.</p>	<p>audited reports" to the company's 1Q/2022 financial reports. The Independent Directors have understood the accountant's explanations and has no opinion on the audit matter and the audit conclusion.</p>
2022.07.29	<p>1. The CPA state they and the firm have follow the rule of CPA independences.</p> <p>2. The CPA explains the responsibilities of the CPA firm 、 the BODs and the Audit Committee to governance the Company.</p> <p>3. The CPA explains their reviewed results of the Company's financial statements of 2Q/2022; including the scope and method of the review, key review matters and the company's governing situation, of related parties.</p> <p>4. The CPA explains the recently rules or Interpretations issued by competent authorities.</p> <p>5. The CPA responds and discusses the questions Independent Directors rise.</p>	<p>The CPA issued "qualified audited reports" to the company's 2Q/2022 financial reports. The Independent Directors have understood the accountant's explanation's and has no opinion on the audit matter and the audit conclusion.</p>
2022.11.04	<p>1. The CPA state they and the firm have follow the rule of CPA independences.</p>	<p>1. The CPA issued "qualified audited reports" to the company's 3Q/2022</p>

		<p>2. The CPA explains the responsibilities of the CPA firm 、 the BODs and the Audit Committee to governance the Company.</p> <p>3. The CPA explains their reviewed results of the Company's financial statements of 3Q/2022; including the scope and method of the review, key review matters and the company's governing situation, of related parties.</p> <p>4. The CPA explains their audit plan of the Company's financial statement of 2022.</p> <p>5. The CPA explains the recently rules or Interpretations issued by competent authorities.</p> <p>6. The CPA responds and discusses the questions Independent Directors rise.</p>	<p>financial reports. The Independent Directors have understood the accountant's explanations' and has no opinion on the audit matter and the audit conclusion.</p> <p>2. The Independent Directors and CPA will have a communication after the audited of 2022 financial reports finished.</p>	
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### 3.4.3 Corporate Governance Operations and Circumstances and Reasons for Differences from the Code of Practice for Corporate Governance of Listed Companies

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
1. Is the company established and disclosed in accordance with the Code of Practice on Corporate Governance of Listed Companies?	V		The Company has established the Code of Corporate Governance Practices in accordance with the Code of Corporate Governance Practices for Listed Companies, which has been disclosed on the Company's website at <a href="http://www.phison.com/InvestorRelations/CorporateGovernance/CorporateRegulations/CorporateGovernancePractices">www.phison.com/InvestorRelations/CorporateGovernance/CorporateRegulations/CorporateGovernancePractices</a> .	No significant differences
2. Company's shareholding structure and shareholders' equity				
(1) Has the company established internal operating procedures for handling shareholder advice, doubts, disputes and litigation matters, and implemented them in accordance with the procedures?	V		(1) The Company has not established internal operating procedures, but in order to ensure the rights and interests of shareholders, it is required to have a spokesperson, an acting spokesperson, and a specialist of shareholders' affairs and legal units to deal with shareholder advice or disputes.	(1) No significant differences
(2) Does the company have a list of the ultimate controllers of the major shareholders and major shareholders who actually control the company?	V		(2) The Company periodically grasped the shares held by the directors, managers and major shareholders holding more than 10% of the shares according to the register of shareholders provided by the Equity Agency Department on the date of the company's suspension of the	(2) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			transaction, and maintained good communication channels at any time.	
(3) Has the company established, implemented and related enterprise risk control and firewall mechanism?	V		(3) The Company has formulated specific operational measures such as the "Operational Guidelines for Financial Business between Related Enterprises" and the internal control system, established appropriate risk control mechanisms and fire walls, audited personnel and regularly supervised the implementation.	(3) No significant differences
(4) Does the company have internal regulations that prohibit insiders from buying and selling marketable securities with undisclosed information?	V		(4) The Company has established the "Measures for the Administration of Preventing Insider Trading" and the "Code of Integrity" to regulate and prohibit any conduct that may involve insider trading, and to conduct occasional advocacy with insiders and employees to prevent insider trading from occurring.	(4) No significant differences
3. Composition and duties of the Board of Directors				
(1) Has the board of directors formulated diversification policies, specific management objectives and implement them?	V		(1) The Company's "Code of Practice on Corporate Governance" defines the policy of diversification of board members. For the specific management objectives and implementation of the diversification policy, please refer to pages 16-17 of this annual report.	(1) No significant differences
(2) In addition to the Salaries and Remuneration Committee and the	V		(2) In addition to the Salaries and Remuneration Committee and the	(2) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
Audit Committee, does the company voluntarily set up other functional committees?			Audit Committee established by law, the Company currently has a business continuity management committee and a risk management committee, as well as various other functional committees, which will be assessed and set up in a timely manner according to the operating situation and actual needs of the Company in the future.	
(3) Does the company determine the method of performance evaluation of the board of directors and its evaluation method, conduct performance evaluation annually and periodically, and submit the results of performance evaluation to the board of directors, and use them as a reference for the remuneration of individual directors and the nomination for renewal?	V		(3) Please refer to pages 32-34 of this annual report.	(3) No significant differences
(4) Does the company regularly assess the independence of the certified public accountants?	V		(4) The Company assesses the independence and competence of certified public accountants at least once a year, and requests the accounting firm to provide statements and relevant information on the independence of audit service team members, the number of years the accountant has provided continuous audit services (The same accountant has not performed visa services	(4) No significant differences



Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			continuously for more than five years), the quality of audit services and relevant industry experience, and the interaction with management and internal audit head. Based on the assessment by the Board of Directors, the results of the most recent two-year assessment were completed in January of 2022 and November of 2022, respectively.	
4. Does the listed company has a qualified and appropriate number of corporate governance personnel and designate a director of corporate governance who is responsible for matters related to corporate governance (including but not limited to providing information necessary for directors and supervisors to execute their business, assisting directors and supervisors to comply with laws and regulations, handling matters related to meetings of the board of directors and shareholders' meetings in accordance with law, making minutes of meetings of the board of directors and shareholders' meetings, etc.)?	V		<p>The following departments are responsible for the implementation of the Company's corporate governance-related affairs:</p> <p><u>1. Handle the matters related to the meetings of the Board of Directors and the Board of Shareholders in accordance with the law, and assist the Company to comply with the relevant decrees of the Board of Directors and the Board of Shareholders, prepare the minutes of the meetings of the Board of Directors and the Board of Shareholders, and provide the information necessary for the directors to execute their business:</u></p> <p>In accordance with the provisions of Article 4 of the Rules of Procedure of the Board of Directors of the Company, the "Board of Directors shall designate the working unit of the Board of Directors ". Therefore, the Company shall be represented by the</p>	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>Shareholders Service Dept., which shall act as the Shareholders Service Dept. of the Board of Directors and summarize the proposals put forward by various departments for discussion by the Board of Directors upon the resolution of the Board of Directors. The Company appointed a professional shareholding agency, the "Horizon Securities Corp. Sharing Agency Department" to plan and handle the matters related to the shareholders' meeting with the Company's Shareholders Service Dept.</p> <p><u>2. The latest legislations related to company operations:</u></p> <p>In accordance with the contents of the latest regulations, the chairman of the Board of Directors of the Company shall designate the relevant departments together with the Legal Office to be responsible for understanding the changes and impacts of the latest regulations on the company operations.</p> <p><u>3. Assist the directors in complying with the laws and regulations:</u></p> <p>In the year of re-election, the Company provided the newly appointed directors (including independent directors) with the Regulatory Advocacy Manual and</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>arranged at least six hours of practical directors' refresher courses per year, and provided decree advocacy information and competent authority advocacy information by e-mail from time to time, etc., in accordance with the law, so as to make the directors of the Company aware of the content of the regulations.</p> <p><u>4. Affairs relating to investor relations:</u></p> <p>In order to ensure the rights and interests of the shareholders, the Company also has a spokesperson, an acting spokesperson and Shareholders Service Dept. and legal units to deal with shareholder advice or disputes, etc., the Company has set up IR department personnel to liaise with investors to solve problems, and can provide valuable opinions and suggestions of the shareholders through the "Stakeholders Section" set up on the Company's website.</p> <p><u>5. Corporate Governance Officer</u></p> <p>By the resolution of the Board of Directors adopted on August 6, 2021, the Company appointed Zhi Chyang Yu Senior Special Assistant and Chief Operating Officer as the first Corporate Governance Officer to safeguard the rights and interests of shareholders and strengthen the functions of the Board of Directors.</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
5. Has the company established the communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers), set up stakeholder sections on the company's website, and respond appropriately to important corporate social responsibility issues of concern to stakeholders?	V		<p>The Company has clear communication channels with employees, clients and suppliers, shareholders, government agencies and local communities, and respects their legitimate rights and interests. The Company has a spokesperson and relevant business departments contact information on its website. In addition, a stakeholder area is set up to provide contact information and questionnaires to respond appropriately to important corporate social responsibility issues of stakeholders. The following communication channels are also provided for all stakeholders:</p> <p><u>1. For the employees` side:</u></p> <p>There are chairman's mailboxes, employee opinion mailboxes, quarterly labor-management meetings, occasional symposiums, quarterly new employee opinion surveys, cross-departmental communication meetings, hold irregular communication meetings with employees and various occasional company events. In 2021, the Company also cooperated with external consultants to conduct the first employee opinion survey of Taiwanese employees. The senior executives of the Company have discussed the results of the employee opinion survey, and discussed the reasons for and proposed</p>	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>countermeasures for the sectors with relatively low scores.</p> <p><u>2. For the customers' side:</u> Communication channels such as daily phone calls and emails, annual customer satisfaction surveys, and customer service lines.</p> <p><u>3. For the Suppliers' side:</u> Provider online platform, semi-annual vendor assessment, annual sustainability risk assessment questionnaire and periodic vendor RBA audits.</p> <p><u>4. For the shareholders' side:</u> The Company also has a spokesperson to deal with matters related to the annual shareholders' meeting, the investor's mailbox, the occasional shareholders' meeting and the institutional investors conference.</p> <p><u>5. Government agencies:</u> Irregular regulations and public hearings, correspondence, industry policy questionnaires.</p> <p><u>6. For the local communities' side:</u> Receive complaints from the community at any time, participate in community events from time to time, and hold charitable events.</p>	
6. Has the company appointed a professional shareholding agency to handle the shareholders' affairs?	V		The Company appointed a professional shareholding agency, the "Horizon Securities Corp. Sharing Agency Department" to plan and handle the matters related to the shareholders'	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			meeting with the Company's Shareholders Service Dept.	
7. Information Disclosure				
(1) Has the company set up a website to disclose financial business and corporate governance information?	V		(1) The Company shall regularly and irregularly declare all financial and business information at the Public Information Observatory in accordance with the regulations, and set up the website www.phison.com to disclose relevant information at any time.	(1) No significant differences
(2) Has the company adopted other methods of information disclosure (such as setting up an website in English language, designating a person responsible for the collection and disclosure of company information, spokesperson system execution, and placing the process of corporate information session, etc. on the company's website)?	V		(2) A. The Company has set up Chinese, English, Japanese and Simplified Chinese web pages. B. Designate specialists to collect and update the website contents periodically. C. Contact information for spokesperson system, etc.: antonioyu@phison.com kuoting_lu@phison.com D. Information inquiries such as corporate information session, etc. Inquiry about the Public Information Observatory/Glossary/Corporate information session List.	(2) No significant differences
(3) Has the company announced and submitted the annual financial report within two months duration after the end of the fiscal year, and announced and reported the	V		(3) On March 15, 2023, the Company announced the annual financial report for the year 2022, which is more than 15 days ahead of the time stipulated in the Decree, and completed the	(3) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
financial report for the first, second as well as third quarters and the operations status of each month before the regulatory period?			financial report for the first, second and third quarters and the operating status for each month before the regulatory period.	
8. Has the company got any other important information (including but not limited to employee rights, employee care, investor relations, supplier relationships, stakeholder rights, directors and supervisors' on the job training, implementation of risk management policies and risk measurement standards, implementation of customer policies, purchase of liability insurance for directors and supervisors, etc.) that will be helpful to understand the operation of corporate governance?	V		<u>(1) Employee rights and employee care:</u> The Company provides employees with a healthy, safe and humane working environment in accordance with laws and regulations and relevant internal management methods. In terms of appointments, promotions, awards, benefits, salaries, training and other aspects, the Company follows certain principles and provides fair opportunities and codes of conduct. The Company has also established the Employee Welfare Committee, the Sexual Harassment Complaints Processing Committee, the Labor Resources Council, the Labor Pension Committee, etc., to safeguard the rights of employees, avoid accidents and injuries, and seek the welfare of employees; the Company has also entrusted the "Hsinchu City Life Line Association/Employee Assistance Programs Service Center" from October 2011 to October 2018, and changed to entrust "Newmind EAP consultant Co., Ltd." from November 2018 to provide the "Employee Life Service Plan" to solve all kinds of problems in employee life and work.	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p><u>(2) Investor Relations:</u> The Company has a specially assigned person to deal with investor-related issues, and regularly or irregularly hold corporate information session to explain the Company's operations status, investors can also contact the IR department personnel of the Company to resolve investor issues by telephone or e-mail.</p> <p><u>(3) Supplier relations:</u> The Company has always maintained a good cooperative relationship with the Supplier and has established the relevant policies and regulations of the Supplier to understand the feature of the Supplier's products and services through the communication process with the Suppliers. In cooperation with the main suppliers, we will conclude relevant cooperation contracts or entrusted agency contracts to protect the rights and obligations of both parties.</p> <p><u>(4) Rights of interested parties:</u> The Company has established the "Operational Guidelines for Financial Business between Related Enterprises" and "Management Operations of Related Party Transactions" to protect the rights of the Company and stakeholders, and has signed relevant cooperation contracts or entrusted agency contracts with major</p>	



Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>suppliers to safeguard the legal rights and obligations of both parties.</p> <p>In addition, a stakeholder questionnaire and contact information are set up in the social responsibility section of the official website to compile and respond to stakeholders' concerns.</p> <p><u>(5) Directors' further training affairs:</u> Please refer to pages 101 to 102 of this annual report for the status of directors' further training in the 2022 year of the Company. The directors of the Company have certain professional background and practical experience in their personal areas of expertise. The Company also arranges relevant courses for the directors in accordance with the current trends of Taiwan's laws and regulations.</p> <p><u>(6) Implementation of risk management policies and risk measurement standards:</u> There are methods and evaluation standards within the Company that serve as the basis for risk management and measurement.</p> <p>A. Financial Risk (Accounting Department)</p> <p>a. Evaluate the impact of interest rates, exchange rate movements, and inflation on profit or loss.</p> <p>b. To evaluate the policies of engaging in high-risk, high-yield investments, lending of funds to others, endorsement guarantees and derivative financial</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>instruments and to evaluate the main causes of profit or loss for the Company.</p> <p>B. Legal Risk (Legal Office)</p> <p>a. The main risk topics are litigation and contract disputes, which reduce the risk of disputes or litigations through the contract review.</p> <p>b. At the time of the incident occurs, an attempt was made to reach a settlement with the other party by analyzing the causes of the dispute and seeking the assistance of an outside professional lawyer to resolve the dispute.</p> <p>C. Intellectual Property Risk (Intellectual Property Office)</p> <p>a. Through a strict patent layout, the rights and interests of the enterprise itself and its customers can be better safeguarded.</p> <p>b. Apply, maintain and, in due course, assert intellectual property rights to protect them in accordance with the law relating to intellectual property rights.</p> <p>D. Information Risk (IT)</p> <p>a. Establish the information security policies and information security safeguards and measures to reduce information security risks.</p> <p>b. In order to ensure the effective operation of information security mechanisms, employees' awareness and ability to adapt to information security will be improved from time to time</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>through emails, announcements and monthly meetings.</p> <p>c. In July 2017, the Company established the "Information Security Committee", which is responsible for information security governance, planning, supervision and execution, and established the "Information Security Management Policy", "QW220010 Information System Change Management Code", "QW220011 Server Host Management Code", "QW220006 System Development and Maintenance Management Code" and other relevant regulations. On August 12, 2020, the Company convened a review meeting to review the improvement of information security and the applicability of the assessment. On October 19, 2020, the Company passed the BSI British Standards Institute ISO27001 International Information Security Certification for three years. In the future, the Company will continue to strengthen all aspects of information security protection and the establishment of joint protection mechanisms from personnel to organizations.</p> <p>E. Environmental Risk (Environmental Safety and Health Risk Management Department)</p> <p>(1) Evaluate the risks to employees, the company and the natural environment</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>posed by environmental shocks and health and safety hazards.</p> <p>(2) Pursue environmental and safety Zero Disaster objectives by continuously identifying hazards, evaluating risks, and implementing the necessary controls to keep risks below the tolerable levels.</p> <p><u>(7) Implementation of customer policy:</u> The Company's website provides customer service contact channels and specialized areas for stakeholder, and provides channels for customer complaints.</p> <p><u>(8) The company purchased liability insurance for directors, supervisors and important staff:</u> According to Article 16 (2) of the Articles of Association of the Company, "The Company may, during the term of office of the Directors, purchase liability insurance for the liability of the Directors in respect of the liability to be borne in accordance with the law in the scope of their business." The Company annually purchases liability insurance for directors, supervisors and important staff. After the insurance is completed, the Company reports on the actual performance in the Board of Directors and announces it in the Public Information Observatory in accordance with the law.</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	

9. Please explain the improved situation regarding the results of the corporate governance appraisal issued by the Taiwan Stock Exchange Co., Ltd. Corporate Governance Center in the most recent year, and propose priorities and measures for those who have not improved.

(1) The Company has established the expected improvement indicators based on the final evaluation results of the 8th Corporate Governance Appraisal. The improvement status are as follows:

Question No.	Subject	Status Improved	Suggesting priorities and measures of enhancement for those who have not improved
3.14	Does the Company's Annual Report disclose a link between the performance evaluation and the compensation of directors and managers?	The Annual Report of the Company has disclosed the procedures for the payment of remuneration and listed the important items related to remuneration in the performance evaluation of directors and managers.	None
4.5	Has the Sustainability Report prepared by the Company been verified by a third party?	The Company's "Corporate Sustainability Report" for the year of 2021 is based on the core options of <i>GRI Standards 2016</i> released by Global Reporting Initiatives(GRI) and <i>Semiconductors Sustainability Accounting Standard 2018</i> of Sustainability Accounting Standards Board and verified by BSI Taiwan according to AA1000AS v3 assurance standard and GRI criterion.	None
4.18	Does the Company disclose information related to the Company's governance, strategies, risk management, and indicators and objectives of climate-related risks and opportunities in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD)?	Based on the framework of the Task Force on Climate-related Financial Disclosures (TCFD), the Company's "Corporate Sustainability Report" for the year of 2022 will disclose 11 proposed disclosures under the four information disclosure proposals, including governance, strategies, risk management, and indicators and objectives of climate-related risks and opportunities.	None

### 3.4.4 Composition and operation of the Remuneration Committee

#### 3.4.4.1 Salaries and Compensation Committee Membership Profile

Date: April 2, 2023

Identity	Criteria	Professional qualifications and experience	Independence Situation	Number of Members of Salaries Compensation Committee of Other Publicly Listed Companies
	Name			
Independent Director (Convener)	Wei Chiu Chung	Please refer to pages 11-12 and page 14-16 of this annual report.		N/A
Independent Director	Chen Wei Wang			2
Independent Director	Yu Lun Huang			N/A

#### 3.4.4.2 Remuneration Committee Operation Information

- (1) The Salaries and Remuneration Committee of the Company consists of three members.
- (2) The term of office of the members: July 14, 2020 to June 2, 2023, the latest annual Salaries and Remuneration Committee meeting was held in 4 times (A), the qualifications and attendance of the members are as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance (%) (B/A)	Remarks
Convener	Wei Chiu Chung	4	0	100.00	
Committee Member	Chen Wei Wang	4	0	100.00	
Committee Member	Yu Lun Huang	4	0	100.00	

Other items to be recorded:

1. The Remuneration Committee of the Company has the following powers:

- (1) Regularly evaluate the organizational rules of the Remuneration Committee and propose amendments.
- (2) Define and periodically evaluate the policies, systems, standards and structure of the annual and long-term performance objectives and remuneration of the directors and managers of the Company.
- (3) Periodically evaluate the achievement of the performance objectives of the directors and managers of the Company and determine the content and amount of their individual remuneration.

<p>In the performance of its duties, the Remuneration Committee shall apply the following criteria:</p> <p>(1) Salary management shall be in line with the Company's remuneration philosophy.</p> <p>(2) The performance appraisal and remuneration of directors and managers should take into account the usual level of payment in the same industry and consider the reasonableness of the relationship between individual performance and the company's operating performance and future risks.</p> <p>(3) The members of the Committee shall not participate in the discussion and vote on the decision on their remuneration.</p>	
2.	If the board of directors declines to adopt or modifies a recommendation of the compensation committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the compensation committee's opinion: there is no such case.
3.	The date, period, contents of the proposal, opinions of all members and treatment of opinions of the members of the Salaries and Remuneration Committee, if any, shall be specified in the resolution of the Salaries and Remuneration Committee, if there is any objection or reservation on the part of the members and if there is a record or written statement: there is no such case.

#### 3.4.4.3 Discussion and resolution results of the Remuneration Committee, and the Company's treatment of members' opinions

Time	Subject of discussion	Results of the resolution	Treatment of members' opinions by the Company
2022.01.21 10th Committee, 4th meeting	Review of the 2022 Goal Setting Proposal by the CEO and the President of the Company	After being confirmed by the chairman, all attending members passed without objection and submitted to the board of directors for discussion.	No comments from members
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers		
2022.03.04 11th Committee, 4th meeting	Review of the compensation amount from profit payment to directors, and the amount and method rewarding employees who assume as director or manager concurrently from employee remuneration of 2021		

Time	Subject of discussion	Results of the resolution	Treatment of members' opinions by the Company
	Review of the annual fixed salary adjustment and payment plan for managers of the Company		
2022.07.29 12th Committee, 4th meeting	Reviewed the 2023 work plan of the Company's Remuneration Committee °		
	Review of the amendments to the “Meals Management Measures” of the Company		
	Review of the proposals for the regular performance evaluation of the directors and managers of the Company and the performance incentive bonus for the managers, and the payment of directors' remuneration and managers' employee remuneration for the year of 2021		
2022.08.19 13th Committee, 4th meeting	Proposal of the cancellation of the list of managers for the employee stock option certificates issued by the Company for the first time in Year 2021		
	The Company's register of managerial officers and the subscription price list for the first issue of employee stock option certificates under the “FY2022 Employee Stock Option Plan and Share Subscription Procedures”		



**3.4.5 Implementation of the Code of Practice for the Promotion of Sustainable Development and the Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies**

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
1. Has the company established a governance structure that promotes sustainable development, and set up a dedicated (part-time) dedicated unit to promote the sustainable development, and the board of directors authorized the senior management to handle the situation, and the board of directors supervised the promotion status ?	V		<p>The Company has set up a dedicated unit, "Corporate Sustainability Management Committee", to promote sustainable development affairs. Please refer to the Company's website at <a href="http://www.phison.com/">www.phison.com/</a> Investor Relations/Corporate Governance/Enterprise Sustainability Management Committee.</p> <p>1. The Company elevated the Corporate Sustainability Management Committee to the Functional Committee under the Board of Directors in November 2021. It is the highest decision-making unit responsible for ESG affairs within the Company and reports on its operations affairs to the Board of Directors once a year.</p> <p>2. The execution status is as follows: (1) The Corporate Sustainability Management Committee is composed of three members,</p>	No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>including Ms. Wen Chiu Chung, independent director, Ms. Yu Lun Huang, independent director, Mr. Zhi Chyang Yu, senior special assistant and chairman of operations (the Convener), and an Executive Secretariat has been established. Its duties are as follows:</p> <p>A.Promote and strengthen the corporate governance and integrity management system.</p> <p>B.Promote and develop the matters related to sustainable development.</p> <p>C.Supervise the other work related to sustainable development that have been resolved by the Board of Directors.</p> <p>(2) The work focus of the Corporate Sustainability Management Committee this year is to obtain the "RBA VAP", pass the verification of "ISO14064-1 Greenhouse Gas Inventory" and improve the</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>performance of various sustainability evaluations. In the future, it will continue to implement new sustainability projects and optimize the content of existing projects.</p> <p>(3) Corporate Sustainability Management Committee shall report the operation to the board of directors once a year. This year, we have reported to the Board of Directors on January 12, 2023 on the implementation results of the sustainable projects in 2022 and the work plan for 2023.</p>	
2. Has the company conducted risk assessment on environmental, social and corporate governance issues related to the company's operations in accordance with the principle of materiality, and determine relevant risk management policies or strategies?	V		<p>The contents of this disclosure cover the performance of the Company's operating locations in Taiwan from January 1 to December 31, 2021, as well as the management policies and response measures for major topics.</p> <p>The Company's Corporate Sustainability Management Committee, in accordance with the principle of materiality and the results of communication with internal and external stakeholders,</p>	No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			and in light of the domestic and foreign trends of sustainable development and the requirements of the competent authorities, differentiated the major themes of sustainability, defined the supervision and risk management mechanisms, and reduced the impact of relevant risks. Please refer to the Company's website at <a href="http://www.phison.com/ESG/ResourceCenter/2021CorporateSustainabilityReport/2.1CriticalIssuesIdentificationProcess(P18-P19)&amp;3.3IntegrityManagement(P30)&amp;3.4LegalCompliance(P30)&amp;3.6EconomicPerformance(P34)(P34)&amp;5ResponsibleSupplyChain(P46)(P46)&amp;6.3WasteWaterandWasteManagement(P57)(P57)&amp;7.2TalentAttractionandRetention(P73)&amp;7.3TalentDevelopmentandTraining(P84).">www.phison.com/ ESG/Resource Center/2021 Corporate Sustainability Report/2.1 Critical Issues Identification Process (P18-P19) &amp; 3.3 Integrity Management (P30) &amp; 3.4 Legal Compliance (P30) &amp; 3.6 Economic Performance (P34) (P34) &amp; 5 Responsible Supply Chain (P46) (P46) &amp; 6.3 Waste Water and Waste Management (P57) (P57) &amp; 7.2 Talent Attraction and Retention (P73) &amp; 7.3 Talent Development and Training (P84).</a>	
3. The environmental agenda				
(1) Has the company established an appropriate environmental management system according	V		(1) The Company has adopted the ISO14001 internationally recognized environmental	(1) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
to the characteristics of its industry?			<p>management system standard in 2008. The Company also complies with the ISO14001 standard, establishes an environmental management system, complies with the environmental laws and regulations and customer commitments of the management authority and the government, affects the environment at all stages of operation, formulates improvement goals and plans, regularly monitors improvement and implements energy conservation and waste reduction, and cooperates with manufacturers to continuously improve to reduce the risk of environmental pollution and achieve the environmental protection goal.</p> <p>The Company has established an environmental safety and health management process within the Company, which involves air pollution control operations, water pollution</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			control operations, waste control operations, chemical control operations, noise pollution control operations, etc., in order to control and reduce environmental pollution and occupational safety and health risks. Please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20ESG/6.%20Environmental%20Protection%20(P58-P67).">www.phison.com/ESG/Resource Center/2021 ESG/6. Environmental Protection (P58-P67)</a> .	
(2) Has the company committed to improve the energy efficiency and use the renewable materials with low impact on the environment?	V		(2) The Company has formulated environmental protection policies, green procurement policies and sustainable management performance indicators, implemented energy resource management and reduction targets, and passed ISO14001 environmental management system verification and ISO14064 greenhouse gas verification. The Company will collect all of the reusable items and send them to recycling firms for reuse to protect our environment. The Company's	(2) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>water intake density, electricity consumption density, and greenhouse gas emission density decreased in 2021, indicating an improvement in energy resource utilization efficiency.</p> <p>Please refer to our website <a href="http://www.phison.com/ESG/ResourceCenter/2021%20CorporateSustainabilityReport/SustainabilityManagementIndicators">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/Sustainability Management Indicators</a> (P10-11) &amp; 6. Environmental protection (P58-67).</p>	
(3) Has the company assessed the potential risks and opportunities of climate change for the enterprise now and in the future, and take relevant response measures?	V		<p>(3) The Company's functional committee under the Board of Directors - the Risk Management Committee is the supreme organization for climate change management. The committee is composed of three members, at least half of whom are independent directors, and reports on its operation status to the Board of Directors once a year.</p> <p>The Company has conducted an opportunity and risk assessment for climate change transition,</p>	(3) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>dividing the risks into three categories: physical, transformation, and product/service, and identifying the risks/opportunities to the Company's financial impact. The Company has prioritized the management of the risk of water shortage and electricity shortage under the climate risk in this year. Meanwhile, the Company began to purchase the renewable energy (wind power) in 2021, initially targeting 1% of the total electricity purchased, increasing to 3% by 2023, increasing to 10% by 2025, and reaching 20% by 2030, in order to stabilize the energy transformation and reduce the greenhouse gas emissions in the operation process. Please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/6.1%20Climate%20Change%20Management">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/6.1 Climate Change Management</a> (p59) and 6.2 Energy Resource Management</p>	



Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			(P60).	
(4) Has the company counted the total weight of greenhouse gas emissions, water consumption and waste in the past two years, and formulated policies to reduce greenhouse gas emissions, water consumption or other waste management?	V		<p>(4) The Company has been conducting annual greenhouse gas inventories since 2011 year. At the same time, it has been counting the use of water resources and waste generation, understanding the energy resources consumed and the greenhouse gases generated by the Company in all operating phases, and is committed to integrating the ISO management system and environmental safety and health-related regulations into its daily operations, implementing various energy conservation measures and resource recycling, etc.</p> <p>In Year 2021, the Company's water intake intensity (water intake volume/million revenue) was 1.589 metric tons/million revenue, which was 23.37% lower than that in Year 2020; and the greenhouse gas emission intensity (greenhouse gas emission/million revenue) was</p>	(4) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>0.182 metric tons of carbon dioxide equivalent per million revenue, which was 6.27% lower than that in Year 2020. A total of 194.26 metric tons of waste were produced in 2021, including general business waste and domestic waste. The amount of recyclable and reusable waste was 47.39 metric tons, accounting for 24.40% of the total, and the amount of non-recyclable and reusable waste was 146.87 metric tons. In 2021, the Company obtained the first third party ISO 14064-1 GHG verification.</p> <p>In 2021, the Company launched two energy conservation projects, which resulted in an estimated saving of 421,257 kWh, equivalent to a reduction of 211,471 kg of carbon dioxide equivalent.</p> <p>Please refer to our website <a href="http://www.phison.com/ESG/ResourceCenter/2021%20SustainabilityReport/6.%20Environmental%20protection">(www.phison.com/ESG/ResourceCenter/2021 Sustainability Report/6. Environmental protection (P58-P67))</a>.</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
4. social agenda				
(1) Has the company formulated relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	V		(1) The Company recognizes and respects the internationally recognized basic labor rights principles and the compliance with the labor standards law and other relevant laws and regulations, and established the human rights policy in June 2020. The policy includes diversity and equal opportunity, prohibition of forced labour, healthy and safe workplaces, freedom of association, labor negotiations, privacy protection, business ethics, and commitment to eliminating human rights risks that may arise in the course of operations. The Company uses the human rights due diligence investigation procedure to implement the human rights policy. In accordance with the relevant human rights agenda, the Company conducts screening and assessment of the importance of the agenda, implements preventive and mitigation measures, and	(1)No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			continuously mitigates human rights risks by finally amending the feedback and continuous improvement process. In addition, we regularly conduct internal human rights audits once a year by our internal RBA authoritative units in accordance with the latest RBA standards, and report the results of the audits to the Corporate Sustainability Management Committee so that the operational management has a grasp of the level of compliance with human rights policies and related performance. Please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource Center/2021 ESG 7.2.2 Human Rights (P79-P82).">www.phison.com/ESG/Resource Center/2021 ESG 7.2.2 Human Rights (P79-P82).</a>	
(2) Has the company defined and implemented reasonable employee benefits measures (including remuneration, vacation and other benefits), and appropriately reflect the operating performance or results in the employee	V		(2) The Company has formulated the internal work rules, salary management methods, employee performance management methods, incentive management methods and other relevant management methods to regulate	(2) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
remuneration?			<p>and reward employees, and the Company does implement them. The Company has established an Employee Benefits Committee that provides a number of employee benefits, such as travel assistance, employee progression assistance, paid family care leave, Employee Assistance Programs (EAPs), flexible working hours, three-section gratuity, and community assistance.</p> <p>In 2021, the proportion of female employees was 25.0%; the proportion of female supervisors was 18.4%; and the proportion of women in senior management was 18.3%.</p> <p>Please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/7.1%20Employee%20Structure%20(P71)%20&amp;%207.2.1%20Pay%20&amp;%20Benefits%20(P74-P78).">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/7.1 Employee Structure (P71) &amp; 7.2.1 Pay &amp; Benefits (P74-P78)</a>.</p>	
(3) Has the company provided a safe and healthy working environment for employees, and	V		<p>(3)</p> <p>1. For the maintenance of the working environment, the head</p>	(3) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
regularly implements safety and health education for employees?			<p>office of the Company has obtained the ISO 45001 occupational safety and health management system verification, and regularly commissioned professional institutions to carry out on-site environmental testing, which includes lighting, carbon dioxide, isopropyl alcohol, local exhaust, lead, noise, etc.; quarterly detection of E. coli, total colony count, and monthly replacement of drinking water filters for employees' drinking water; monthly maintenance and upkeep of elevators; periodic building safety assessments; periodic inspection of the central house of the Company's cafeteria; detection of heavy metal content of irrigation water on farmland, etc.</p> <p>2. In order to grasp the health status of employees, allocate suitable work, prevent occupational diseases, and reduce labor disputes, in addition to setting up</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>medical rooms in accordance with the occupational safety and health law, labor health protection rules, labor standards law and other relevant regulations, new personnel health checkups and periodic health checkups are also carried out, and professional doctors are arranged by the company to explain to their peers; the medical care units also implement health management and tracking for persons with abnormal health conditions.</p> <p>Since 2015, in cooperation with Miaoli Health Bureau policy, promote workplace health promotion and obtain certification; host mother classrooms, blood donation activities, common dietary traps and my plate matching, common adult periodontal problems and children's tooth replacement care, pay attention to physical alerts, avoid sudden death threats, modern Tai Chi health, reduce modern civilization diseases,</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>parents and children Read lectures on sharing, first aid education and training &amp; AED operation; promote "breastfeeding at work" in cooperation with the Health Bureau; hold yoga classes and weight loss aerobic classes once a season; park blind massage therapists 3 times a week to achieve compression and muscle relaxation through massage; park doctors 3 times a month Provide health consultation services; arrange pap smear screening, gynecological ultrasound and breast ultrasound screening for women at the annual health checkup; cooperate with the Liver Disease Prevention and Control Foundation to provide liver, biliary, gastrointestinal and cancer screening and blood sampling at the annual health checkup, and provide on-site consultation services for abdominal ultrasound; arrange cervical cancer and influenza vaccine delivery activities.</p>	



Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>3. In cooperation with the Council of Labor Affairs (CLA) and statutory regulations, 4 major workplace plans are formulated and managed, including: maternity protection, overwork prevention, musculoskeletal injury prevention and workplace abuse. For the contents of the plans, employees' physical and mental conditions are taken care of through questionnaire statistics and on-site interviews.</p> <p>4. In the planning of employee health care, the Company arranged free health lectures from time to time, and continued to cooperate with the Hsinchu Lifeline Association, an incorporated association, since 2011 year changed to entrust "Newmind EAP consultant Co., Ltd." 's Employee Assistance Program (EAPs) since November 2018. Through professional consulting services, the Company helped colleagues to solve the difficulties and pressures encountered. The Employee</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>Benefits Committee of the Company has a subsidy scheme for the establishment of the same good association by the group employees with reference to the method of establishment of the association, and the regular activities are held by the association; this activity is of considerable benefit to the physical and mental health of the group employees, such as the existing badminton club, basketball club, yoga club, golf club, basketball club, swimming club, billiard club and Taiji Boxing club, etc.</p> <p>5. In 2021, the Company had no major occupational accidents. The total number of occupational injuries of employees was 9, and the number of employees injured was 10 (accounting for 0.34% of the total number of employees at the end of 2021). All of these accidents were traffic accidents of employees commuting to work. The relevant units have strengthened the traffic safety</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>promotion for employees.</p> <p>6. Please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/7.4%20Occupational%20Safety%20and%20Health">(www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/7.4 Occupational Safety and Health (P87-P92))</a>.</p>	
(4) Has the company established effective career development training programs for its employees?	V		<p>(4) The Company has 7 major training structures, namely, education and training for newcomers, in-service/professional training, quality training, auxiliary skills training, safety and health related training, hierarchical training and on-board system training, and also provides self-inspired training and licensing assistance according to personal career needs. Each year, the HR department plans the direction of the annual training plan and the main target audience according to the professional functional needs of the organization and each department. In addition, in order to cooperate with the development of various businesses and improve the</p>	(4) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>quality of talents, in order to seek the effective use of manpower, regular or irregular various training is held to enhance the employees' working knowledge and skills, and the procedures and operations thereof are handled in accordance with the "Education and Training Management Measures" stipulated by the Company. In order to confirm the effectiveness of the training, the Company evaluates the four stages of the Kirkpatrick Model: response, learning, behavior, and results. The effectiveness of the training course is judged by the response (satisfaction survey) of the trainees. In 2021, the total cost of education and training of the Company was NT\$3,094,960, with 277 physical courses, 379 online courses, of which 177 courses with learning assessment (written test), with an average satisfaction score of 94.2 points.</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			Please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/7.3%20Talent%20Development%20and%20Training">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/7.3 Talent Development and Training</a> (P84-P86).	
(5) Does the company comply with relevant laws, regulations and international standards, and formulate relevant consumer or customer rights protection policies and appeal procedures for issues such as customer health and safety, customer privacy, marketing and labeling of products and services?	V		<p>(5) The labeling information of the Company's products and services is indicated on the product packaging back card and the instruction manual, and the labeling content includes "brand name", "RoHS logo", "CE safety mark" and "WEEE recycling mark" to declare the safety of the products or services and the compliance with the relevant regulations on the quality of harmful substances.</p> <p>The Company has a Personal Data Protection Management Policy and Privacy Policy, and stakeholders who discover a violation, suspected violation or potential violation of privacy or personal data protection by the Company may contact the Company's Security and</p>	(5) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>Resource Integration Department via a dedicated email address: <a href="mailto:privacy@phison.com">privacy@phison.com</a>. Please refer to the Company's website at <a href="http://www.phison.com/ESG/ResourceCenter/Policies/PersonalDataProtectionPolicy">www.phison.com/ ESG/ Resource Center/Policies/Personal Data Protection Policy</a> &amp; the Company's Website/Privacy Policy.</p> <p>In 2021, the Company did not receive any complaints for leakage of customer information or infringement of customer privacy, nor did it receive any complaints and judgments for violation of marketing and labeling. Please refer to the Company's website at <a href="http://www.phison.com/ESG/ResourceCenter/2021CorporateSustainabilityReport/3.7InformationSecurity(P41-P43)/4.3CustomerRelationshipManagement(P50-P51)/6.4.2GreenManagementProcess(P64-P65)">www.phison.com/ ESG/Resource Center/2021 Corporate Sustainability Report/3.7 Information Security (P41-P43)/4.3 Customer Relationship Management (P50-P51)/6.4.2 Green Management Process (P64-P65)</a>.</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
(6) Has the company established a supplier management policy that requires suppliers to comply with relevant regulations and their implementation on environmental protection, occupational safety and health or labor rights?	V		(6) The Company upholds the spirit of accountability to build a responsible supply chain, and implements responsible supply chain management in accordance with the four implementation steps of supply chain management: compliance with standards, risk assessment, participation in audit, and continuous improvement. The Company specified in the procurement contract signed with the supplier that the supplier must abide by the "Code of Conduct for RBA Responsible Business Alliance", and subsequently required the supplier to sign the Code of Conduct for Suppliers. Each year, all existing Tier 1 suppliers are required to fill in the "Sustainability Risk Assessment Questionnaire", which covers the five major aspects of labor, occupational safety and health, environmental protection, supply chain management, and sustainability and risk	(6) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>management. The Company's personnel will conduct a re-assessment and classify the sustainability risk level of suppliers according to their scores, and subsequently manage and optimize the supply chain according to the long-term sustainability performance of suppliers. New suppliers are also required to meet the basic sustainability assessment and can only start business cooperation with the Company after passing the assessment. At the same time, the Company considers factors such as irreplaceability and purchase amount, and selects key suppliers based on the results of risk identification. The Company's professionals conduct RBA audits every year. Please refer to our website <a href="http://www.phison.com/ESG/ResourceCenter/2021SustainabilityReport/5.ResponsibleSupplyChain(P52-P57).">www.phison.com/ESG/ResourceCenter/2021 Sustainability Report/5. Responsible Supply Chain (P52-P57)</a>.</p>	
5. Has the company referred to the	V		In order to ensure the quality and	No significant



Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
internationally accepted reporting standards or guidelines to prepare reports that disclose the company's non-financial information, such as the reports related to sustainability? Has the previous reports got the confidence or assurance opinions of the third-party verification unit?			transparency of information disclosure, the 2021 Corporate Sustainability Report is based on the core options of GRI Standards 2016 released by Global Reporting Initiatives(GRI) and Semiconductors Sustainability Accounting Standard 2018 of Sustainability Accounting Standards Board and verified by BSI Taiwan according to AA1000AS v3 assurance standard and GRI criterion. The 2021 Report was completed and uploaded to the official website in June 2022. Please refer to our website <a href="http://www.phison.com/ESG/ResourceCenter/2021SustainabilityReport/Aboutthisreport(P2).">www.phison.com/ESG/ResourceCenter/2021 Sustainability Report/About this report (P2)</a> .	differences
<p>6.If a company has its own rules for the sustainable development in accordance with the Code of Practice for the Sustainable Development of Listed Counter Companies, please clarify the difference between its operation and the rules:</p> <p>In 2021, the Company established the Code of Practice on Corporate Social Responsibility, which covers the implementation of corporate governance, the development of a sustainable environment, the maintenance of social welfare, and the enhancement of corporate social responsibility information disclosure.</p>				
<p>7.Other important information assists to understand what drives sustainable development execution:</p> <p><u>(1). Environmental protection:</u></p>				

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
<p>For details on the Company's execution of its environmental responsibilities, please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/6.%20Environmental%20Protection">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/6. Environmental Protection (P58-P67)</a>.</p> <p><u>(2). Community participation, social contribution, social services, social welfare, human rights, safety and health, and other socially responsible activities:</u></p> <p>For details of the Company's ongoing goodwill, please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/8.%20Social%20Prosperity">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/8. Social Prosperity (P94-P99)</a>.</p> <p><u>(3). Consumer rights:</u></p> <p>For more information on the Company's customer relationship management, please refer to the Company's website at <a href="http://www.phison.com/ESG/Resource%20Center/2021%20Corporate%20Sustainability%20Report/4.%20Innovation%20and%20services">www.phison.com/ESG/Resource Center/2021 Corporate Sustainability Report/4. Innovation and services (P50-P51)</a>.</p>				

**3.4.5.1 Climate-Related Information of Listed Counter Companies**  
**3.4.5.1.1 Status of Execution of Climate-Related Information**

Item	Status of Execution
1. Describe the board's and management's oversight and governance of climate-related risks and opportunities.	<p>1. The Risk Management Committee, a functional committee under the Board of Directors, is responsible for managing climate change. It has three members, more than half of whom are independent directors, and regularly reports to the Board of Directors on the progress of climate risk management every year.</p> <p>2. The executive team under the Risk Management Committee is responsible for the identification, assessment and monitoring of climate-related risks and opportunities, and reports important climate-related risk information to the Risk Management Committee on a quarterly basis.</p> <p>3. The Corporate Sustainable Management Committee is the unit that supervises the Risk Management Committee, and the executive group under it is responsible for promoting the policies and relevant work plans of the Company, formulating adjustment strategies and action plans, discussing with the Risk Management Committee on a regular basis, and reporting the implementation results to the Board of Directors on a regular basis.</p>
2. Describe how the identified climate risks and opportunities will affect the business, strategy, and finances of the enterprise (short, medium, and long term).	Based on the TCFD framework, the Company analyzed the impact and contribution of climate change risks and opportunities on operations, and identified major risk factors such as total greenhouse gas control and carbon cost, insufficient water and electricity supply, rainstorm/flood, etc., which will increase the operating costs of enterprises due to the purchase of a large number of emergency equipment. Opportunity factors include increased market demand for environmentally friendly/energy-saving products, low-carbon production, etc. If the energy efficiency optimization of new products is obvious, it will contribute to revenue. In addition, the Company can reduce operating costs by reducing the consumption of energy resources.
3. Describe the financial impact of extreme weather events and transition actions.	<p>1. Carbon-related policies and regulations at home and abroad have been introduced one after another, and enterprises must pay corresponding fees (carbon rights or purchase of renewable energy vouchers) for compliance, or invest resources to reduce carbon emissions, which will increase operating costs.</p> <p>2. Extreme weather will lead to a higher probability</p>

Item	Status of Execution
	<p>of occurrence of water storms and floods, and the concentration of rainstorms will easily cause floods, which will lead to delays in material scheduling and failure to produce and ship products on schedule. It increases operating costs and risk of default.</p> <p>3. The resilience of Taiwan Power Company is relatively insufficient. At present, the generators in the plant of the Company are only used for life support equipment such as fire fighting, MIS machine room, elevator and lighting. Therefore, in case of power failure, except for the important machine room, the work of other personnel will be forced to end ahead of schedule, which will lead to the loss of production capacity.</p> <p>4. The Company actively develops low-carbon products, continuously optimizes product performance through design, enhances user convenience and indirectly reduces carbon emissions of end users. Low-carbon products also contribute to market promotion and increase of product revenue.</p>
4. Describe how climate risk identification, assessment, and management processes are integrated into the overall risk management system.	Through the participation of relevant departments in the discussion, the overall assessment results will be submitted to the Risk Management Committee and the Board of Directors for planning, adjustment and mitigation strategies for major risks.
5. If scenario analysis is used to assess resilience to climate change risk, the scenarios, parameters, assumptions, analytical factors, and major financial impacts used shall be described.	The Company conducts climate risk analysis based on different scenarios, including physical scenarios such as RCP 2.6, RCP 4.5, RCP 6.0 and RCP 8.5.
6. If there is a transformation plan to manage climate-related risks, describe the content of the plan and the indicators and objectives used to identify and manage physical risks and transformation risks.	<p>1. The Company has established the climate-related risk and opportunity assessment management indicators, such as water consumption, greenhouse gas emissions and the proportion of renewable energy use.</p> <p>2. The Company carries out ISO 14064 carbon inventory every year and commissions a third party to carry out data verification if necessary. In the future, the Company will expand the inventory types of category III every year to grasp complete carbon emission information.</p>
7. If internal carbon pricing is used as a planning tool, the basis for pricing should be described.	There is currently no internal carbon pricing.

Item	Status of Execution
<p>8. If a climate-related goal is set, the activities covered, the scope of greenhouse gas emissions, the planning period, and the annual progress of achieving the goal shall be described. If carbon offsets or renewable energy certificates (RECs) are used to achieve the goal, the source and quantity of carbon reduction credits offset or the quantity of renewable energy certificates (RECs) shall be described.</p>	<p>KPIs for key climate targets such as greenhouse gases, renewable energy and water in 2025 have been set.</p>
<p>9. Greenhouse gas inventory and confidence situation</p>	<p>The Company carries out ISO14064-1 self-inspection every year, and carries out third-party verification if necessary.</p>

### 3.4.5.1.1.1 Greenhouse gas inventory and confidence situation

<p>Basic Information of the Company</p> <p><input type="checkbox"/> For companies with a capital of more than NT\$10 billion in steel business, cement business, etc.</p> <p><input type="checkbox"/> For companies with a capital of more than NT\$5 billion but less than NT\$10 billion</p> <p><input checked="" type="checkbox"/> For companies with a capital of less than NT\$5 billion</p>	<p>In accordance with the Requirements of the Sustainable Development Roadmap of the Listed Companies, at least the following disclosure shall be made.</p> <p><input type="checkbox"/> Parent company individual inventory, consolidated financial statements subsidiary company inventory</p> <p><input type="checkbox"/> Parent company individual confidence, consolidated financial statements subsidiary company confidence</p>
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Category I	Total emissions (metric tonnes CO2 e)	Intensity (metric tonnes CO2e/M)	Confidence agency	A statement of confidence in the situation
Parent company	150.53	0.0024	TUV	The ISO14064 certificate (Certificate No. CF50537216 0001) issued according to TUV is in conformity with the data of category I and belongs to the level of reasonable assurance. Please refer to the certificate on page 92.
Total	150.53	0.0024		
Category II	Total emissions (metric tonnes CO2 e)	Intensity (metric tonnes CO2e/M)	Confidence agency	A statement of confidence in the situation
Parent company	11,224.73	0.1794	TUV	The ISO14064 certificate (Certificate No. CF50537216 0001) issued according to TUV is in conformity with the data of category II and III and belongs to the level of reasonable assurance. Please refer to the certificate on page 92.
Total	11,224.73	0.1794		
Category III	4,282.15			

# Certificate

Standard **ISO 14064-1:2018**

Certificate Registr. No. **CF 50537216 0001**

Report No. **38524396 001**

Certificate Holder: **PHISON ELECTRONICS CORP.**

No. 1, Qunyi Rd., Zhunan Township, Miaoli County 350402 , Taiwan (R.O.C.)

Site:

Site 1: 12F, 17F, 18F., No. 3, Sec. 1, Minsheng Rd., Banqiao Dist., New Taipei City 220357 , Taiwan (R.O.C.)

Site 2: 15F.-1, No. 251, Fuxing 1st St., Zhubei City, Hsinchu County 302052 , Taiwan (R.O.C.)

Site 3: No. 1, 1-1, 1-2, 1-5, Qunyi Rd., Zhunan Township, Miaoli County 350402 , Taiwan (R.O.C.)

Site 4: 1F, 4F., No. 38, Keyi St., Zhunan Township, Miaoli County 35042 , Taiwan (R.O.C.)

Scope:

Verification and Validation Body: TÜV Rheinland Taiwan Ltd.

- Process: Document review, interview, remote audit and recalculation

Based on the information we have received and evaluated that:

- Programme: Voluntary GHG scheme
- Review Criteria: ISO 14064-3:2006
- Organizational Boundary: Operational Control
- Level of Assurance: Reasonable
- Materiality: 5%
- Global warming potential (GWP): IPCC 2013
- Base year: 2021 (2021.01.01~2021.12.31)
- Inventory year: 2021 (2021.01.01~2021.12.31)
- The total carbon emission is 15,614.587 tonnes CO<sub>2</sub> equivalent (tCO<sub>2</sub>e)
  - Direct emission is 150.5286 tCO<sub>2</sub>e
  - Indirect emission is 15,464.0588 tCO<sub>2</sub>e
- This certificate supersedes the certificate issued on 21 March 2022

Validity:

This certificate only reviewed the emissions data of inventory year, this certificate is not for the management systems certification.

2022-04-11

  
TÜV Rheinland Taiwan Ltd.  
11F., No. 758, Sec. 4, Bade Rd.,  
Taipei 105, Taiwan

This verification and validation is based on the information made available to TÜV Rheinland and the engagement conditions detailed above. Therefore, TÜV Rheinland cannot guarantee the accuracy or correctness of this information. TÜV Rheinland cannot be held liable by any party relying on or acting upon this verification and validation.

### 3.4.6 Ethical Corporate Management and Deviations from “The Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs				
(1) Has the Company established the ethical corporate management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices and the commitment of the board of directors and senior management to rigorous and thorough implementation of such policies?	V		(1) In 2020, the Company established the “Ethical Corporate Management Best Practice Principles”, which is disclosed on the Company's website and the Market Observation Post System. The Company devotes itself to abide by the international regulations and local laws and moral principles agreed by the society, including fair competition, anti-trust, respecting local marketing rules, prohibiting illegal products protecting copyrights and all kinds of intellectual property. The Company signs confidential agreements with its directors and managers illustrates the rules which should be followed.	(1) No major deviation
(2) Has the Company established a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and	V		(2) To prevent unethical conduct, we have established the regulations in the employment contracts, as well as the code of work and the regulation of reward/punishment. In addition to asking employees to notify the Company in case of conflict of interest, we also set up an email for reporting such behavior (whistleblower@phison.com).	(2) No major deviation



Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
establish prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies"?				
(3) Has the Company specified in its prevention programs the operating procedures, guidelines, punishments for violations, and a grievance system and implemented them and review the prevention programs on a regular basis?	V		(3) The Company asks suppliers, contractors and other affiliates to sign documents for guaranteeing no illegal business activities and no bribes.	(3) No major deviation
2. Fulfillment of Ethical Corporate Management				
(1) Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		(1) The Company has the internal code of work and the regulation of reward/punishment to avoid unethical behaviors. The Company selects the suppliers based on the principles of ethical corporate management and fairness to find the most competitive companies which are ethical. It is	(1) No major deviation

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			strictly prohibited to take a commission or other improper rewards.	
(2) Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity and regularly report the implementation of the ethical corporate management policies and prevention programs against unethical conduct to it?	V		(2) Integrity is one of the five core values of the Company and is always the basis of the operation of the Company. From Board of Directors to every unit, our operation is based on integrity. All colleagues, management team and Directors should believe and implement this regulation. The management team should take this very seriously and serve as good examples. The Company has set up a dedicated unit "Corporate Sustainability Management Committee" to promote corporate social responsibility and has reported on the implementation of ethical corporate management in the Board of Directors' Meetings respectively on November 4, 2022.	(2) No major deviation
(3) Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(3) The Company has code of Corporate Social Responsibility Best Practice Principles work, code of conduct and regulations of reward/punishment to regulate its employees. It is prohibited for employees to endanger the rights of the Company because of personal rights.	(3) No major deviation

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Has the Company established effective systems for both accounting and internal control to facilitate ethical corporate management, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or entrusted a CPA to conduct the audit?	V		(4) To ensure the ethical operation, the Company have established effective systems for both accounting and internal control. Internal auditors approve all kinds of business and report the results to the Board of Directors.	(4) No major deviation
(5) Does the Company regularly hold internal and external educational trainings on operational integrity?	V		(5) Integrity is one of the five core values of this company and has been in our culture. We also stress this in all meetings to enforce this core value.	(5) No major deviation
3. Operation of the tip-off system				
(1) Has the Company set up a specific tip-off and rewarding system, established a convenient tip-off channel, and appointed adequate staff to communicate with the one who reports?	V		(1) The Company has regulations of integrity, regulations of reward/punishment, code of work and code of conduct for employees to follow. In case of any improper behaviors, please report it to our human resource department by telephone or email (whistleblower@phison.com) or letter.	(1) No major deviation

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Has the Company established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after the investigation, and related confidentiality mechanisms?	V		(2) In the communication protocol of the Company, all personnel should keep the informant data confidential.	(2) No major deviation
(3) Has the Company taken measures for protecting the whistle blower from improper treatment because of the tip-off?	V		(3) The Company has regulations that the data of the whistle blower should be kept confidential for protection whistle blower from unfair revenge or treatment.	(3) No major deviation
4. Strengthening information disclosure				
Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company's website and the market observation post system (MOPS)?	V		The Company has a website for investors to review the relevant information. The information is posted on the MOPS for investors to understand governance.	No major deviation
<p>5. If the Company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation:</p> <p>The Company has established the "Ethical Corporate Management Best Practice Principles" in 2020, which is disclosed on the Company's website and the Market Observation Post System. There was no major difference between its implementation and "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies". On November 4, 2022, the Board of Directors reported on the performance of ethic corporate management as follows.</p>				

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>(1) Code of Conduct with Integrity</p> <p>A. Recusal of interest: When the Company convenes the Audit Committee, the Remuneration Committee, and the Board of Directors' Meeting, the Company provides explanations in accordance with Article 206 of the Company Act when the directors have their own interests in the motion, and the directors who have their own interests will be recused from the discussion and voting on the motion.</p> <p>B. Prohibition of insider trading and confidentiality agreements: The Company has established The Procedures of Measures to Prevent Insider Trading to prevent insider trading and signed employment contracts for all employees, and from time to time, the directors, managers and employees are informed of the latest legal information in writing and by e-mail and are regularly informed. In addition to the aforementioned method, the Company hold the online courses to directors, managers and employees of the Company on a regular basis every year as a mandatory annual training course.</p> <p>(2) Education Training</p> <p>A. The implementation of ethics, human rights, and anti-corruption training for managers / employees/new recruits is as follows: In 2022, the Company organized internal and external education and training on ethical corporate management topics (including courses on compliance with regulations on ethical corporate management, anti-capitalist corruption, insider trading, accounting system and internal control) for a total of 6,922 participants and a total of 3,096.3 hours.</p> <p>B. The implementation of Directors' ethnics training is as follows: In 2022, the Company organized a course on Implement honest management (including prevention of insider trading promotion) for directors on November 4.</p> <p>(3) 2023 Projected Implementation of Integrity Business Policy Report:</p> <p>A. Continue to amend the measures related with the integrity management policy according to the actual needs of the company and in line with the revision of laws and regulations.</p> <p>B. Continue to publicize relevant laws and regulations such as “Prevention of Insider Trading” and “Insider Equity Trading” to directors.</p> <p>C. Continue to strengthen ethical training for employees and ask employees to continue to sign the Phison Electronic Business Conduct and Ethical Code of Conduct Commitment Statement.</p>				

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>(4) Establishing a whistle-blowing mechanism: The tip-off system and whistle blower protection</p> <p>The Company has established a specific tip-off system in the "Corporate Governance Best Practice Principles", "Ethical Corporate Management Best Practice Principles ", "Code of Conduct" and "Ethical Corporate Management Best Practice Principles" to actively prevent dishonest behavior and encourage internal and external personnel to report dishonest behavior or misconduct. The Stakeholder Zone on the Company's website provides an effective means of communication among employees, shareholders, stakeholders, and outsiders. If a report involves a director or senior executive, it will be reported to the Board of Directors, and a whistle blower protection system has been established to keep the identity and content of the whistle blower confidential and to protect the whistle blower from improper treatment as a result of the report. The Company has not received any prosecution cases in 2022 and up to date.</p>				
<p>6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).</p> <p>The Company has established the "The Procedures of Measures to Prevent Insider Trading" and "The Audit Procedures of Measures to Prevent Insider Trading". In the "Management Operation of Avoiding Insider Trading", there are provisions for "How to Define the Internal Critical Information Affecting Stock Price" and "Confidential Operation and Trading Prohibition Before the Internal Critical Information is Announced", etc. From time to time, the Company will educate its directors, managers and employees on the management procedures for prevention of insider trading and related laws and regulations in writing, by e-mail or by relaying the latest legal information.</p>				

**3.4.7 If the Company has established the regulations of corporate governance and relevant regulations, the inquiry access shall be disclosed.**

Important Regulations	Disclosure of inquiry access
Articles of Incorporation Rules of Procedure for Shareholders Meeting Rules of Procedure for Board for Directors Meeting Procedures of Election Directors Rules Governing the Scope of Independent Directors Ethical Corporate Management Best Practice Principles Regulations for Remuneration Committee Auditing Committee Charter Procedures for Acquisition or Disposal of Assets Procedures for Endorsement and Guarantee Procedures for Lending Funds to Other Parties Procedures for Engaging in Derivatives Trading The Procedures of Measures to Prevent Insider Trading Corporate Governance Best-Practice Principles Corporate Social Responsibility Best Practice Principles Ethical Corporate Management Best Practice Principles Methods to Evaluate Performance of the Board of Directors Code of Conduct RBA Case and Investigation Management Measures Ethics Policy Whistle-blowing Method Corporate Sustainable Development Committee Charter Risk Management Policy And Procedure	<p style="text-align: center;"><u>MOPS:</u>  <a href="http://mops.twse.com.tw">http://mops.twse.com.tw</a>  Refer to Basic information/E-books/Annual Reports and relevant documents of shareholders' meetings or  Refer to Corporate Governance/Corporate Governance Structure/the relevant rules and regulations formulated for corporate governance.</p> <p style="text-align: center;"><u>Corporate website:</u>  <a href="http://www.phison.com">www.phison.com</a>  Investor Relations/Corporate Governance/Company rules and regulations</p>

### 3.4.8 Other Important Information Regarding Corporate Governance

#### 3.4.8.1 Advanced Training of Directors in 2022

Title	Name	Date Elected	Date of Further Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2022
			From	To				
Legal person Representative director	Wee Kuan Gan	2021/11/18	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Director	Chee Kong Aw Yong	2020/06/03	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Director	Tzung Horng Kuang	2020/06/03	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Director	Jiunn Yeong Yang	2020/06/03	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Legal person Representative director	Chih Jen Hsu	2022/05/24	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Legal person Representative director	Hiroshi Miyauchi	2020/11/13	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6



Title	Name	Date Elected	Date of Further Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2022
			From	To				
			2022/11/04	2022/11/04				
					Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Independent Director	Wen Chiu Chung	2020/06/03	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Independent Director	Chen Wei Wang	2020/06/03	2022/08/03	2022/08/03	Taiwan Corporate Governance Association	How to Avoid Breach of Trust and Unconventional Transactions in Directors' Decisions	3.0	9
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	
Independent Director	Yu Lun Huang	2020/06/03	2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Case sharing of implementation of integrity management	3.0	6
			2022/11/04	2022/11/04	Taiwan Corporate Governance Association	Cognition and Prevention of Joint Pricing	3.0	

3.4.8.2 Further trainings on corporate governance attended by the financial executive, deputy of the accounting director and the relevant personnel involved in the preparation of financial reports in 2022:

Title	Date of Further Training	Sponsoring Organization	Course	Training Hours
Director	2022/05/26-2022/05/27	Accounting Research and Development Foundation	Further Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours
Manager	2022/12/08-2022/12/09	Accounting Research and Development Foundation	Further Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours

3.4.8.3 Further Trainings of Internal Auditor on Governance in 2022

Title	Date of Further Training	Sponsoring Organization	Course	Training Hours
Audit Director	2022/04/11	The Institute of Internal Auditors-Chinese Taiwan	Regulations and Practical Analysis on Loan of Funds, Endorsement Guarantee and Acquisition and Disposal of Assets	6 hours
	2022/05/11	The Institute of Internal Auditors-Chinese Taiwan	The Focus of Operating System Audit and the Integration Across Cycles and Activities	6 hours
Auditors	2022/10/25	The Institute of Internal Auditors-Chinese Taiwan	Internal Audit Essentials for Compliance with Laws and Regulations	6 hours
	2022/11/08	The Institute of Internal Auditors-Chinese Taiwan	Subsidiary Audit Practice	6 hours
Corporate governance director	2022/05/04	Taiwan Stock Exchange	International Double Summit Online Forum	2 hours
	2022/06/22	Taiwan Academy of Banking and Finance	Workshop on Corporate Governance and Corporate Sustainability	3 hours
	2022/08/25	Taipei Exchange	Seminar on the Shareholding of TWSE Listed and Emerging Companies	3 hours
	2022/09/22	Taiwan Securities Association	Corporate Sustainability and ESG Trends	3 hours
	2022/10/25	Taiwan Academy of Banking and Finance	Lecture on corporate governance	3 hours

#### 3.4.8.4 Domestic and Overseas Certificate Owned by Finance, Accounting and Stock Personnel:

Domestic (Overseas) Certificates	Finance, Accounting and Stock Personnel	Auditors
Domestic Certificates	Book keeper of general examination Level B technician for accounting Level C technician for accounting Service Personnel Professional Competency Test Certificate	Certificate by Institute of Internal Auditors Qualification of Internal Control Skills Test
Overseas Certificates	None	Certified Internal Auditor (CIA) Certification in Risk Management Assurance (CRMA)

#### 3.4.8.5 Buying Insurances for Directors in the Past Two Years:

Subject	Insurance company	Insured amount	Term
Directors, Supervisors and Important Employees	Cathay Century Insurance Co., Ltd	US\$ 20,000,000	2022/01/12 - 2023/01/12
Directors, Supervisors and Important Employees	Cathay Century Insurance Co., Ltd.	US\$ 20,000,000	2023/01/12 - 2024/01/12

#### 3.4.8.6 Drafting of Corporate Sustainability Report:

In order to ensure the transparency of information disclosure, the Company's Corporate Sustainability Report, which have been prepared since 2013, were prepared as follows for the latest two years.

Year	Principles	Remark
2021	In accordance with the reporting and quantity principles of GRI-101 and the accountability principle of AA1000,	It was disclosed on the website and MOPS in June 2022.
2022	In accordance with GRI Standards 2016 of of Global Reporting Initiative (GRI), Semiconductors Sustainability Accounting Standard 2018 of Sustainability Accounting Standards Board (SASB )and the accountability principle of AA1000,	It is expected to be disclosed on the website and MOPS in June 2023.

3.4.8.7 In order to maintain our leading position in the industry and protect our R&D achievements, the Intellectual Property Office is the dedicated unit for planning and executing the management of intellectual property, and has established an intellectual property management system to follow the corporate governance policies of the competent authorities and handle patent disputes to reduce the risks associated with intellectual property rights. The Company's intellectual property is produced, managed and applied in conjunction with the Company's strategic objectives, and its implementation is reported to the Board of Directors from time to time.

(1) Patent management: The Company mainly implements this at the executive level through patent mining, R&D technology evaluation, incentive system, and education and training. In terms of the patent application strategy, the Company mainly focuses on the quality and the core, and encourages the employees to apply for patents, so the continuous accumulation of technical energy can help future product development and maintain market competitiveness.

(2) Implementation status: The Company has reported the issues related to intellectual property to the board of directors on November 4, 2022.

In terms of the number of patent applications, as of the first quarter of 2023, the Company has more than 1,912 patents worldwide, 703 in Taiwan, 607 in the United States, 572 in China, and 30 in other countries.

In terms of patent quality, the Company features a patent approval rate as high as 90% or above.

### 3.4.9 Implementation of Internal Control

#### 1. Statement of Internal Control

##### PHISON ELECTRONICS CORPORATION

##### Internal Control System Statement

Date: March 15, 2023

The Company states the following with regard to its internal control system during fiscal year 2022, based on the findings of a self-assessment:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinbelow, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring activities. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has assessed the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the assessment mentioned in the preceding paragraph, the Company believes that as of December 31, 2022 its internal control system (including its supervision and management of subsidiaries), encompassing internal controls for understanding the degree of achievement of operational effectiveness and efficiency objectives, reporting of the company reliable, timely, transparent, and complies with applicable rules, and compliance with applicable laws, regulations, and bylaws, is effectively designed and operating, and reasonably assures the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on March 15, 2023, where none of the nine attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

PHISON ELECTRONICS CORPORATION

Chairman: (signature)

President: (signature)

2 For those who commit CPAs to review the internal control system, the CPA review report should be disclosed: none.

**3.4.10 Punishment by laws or publication by internal control system in recent years and as of the date of publication of this annual report, and punishment, major deficiencies and improvements shall be listed where the punishment may have significant impact on shareholders' equity or securities price: None.**

**3.4.11 Major Resolutions of Shareholders' Meeting and Board of Directors in Recent Years and as of the Date of Publication of this Annual Report**

**3.4.11.1 Major Resolutions of Shareholders' Meeting**

Time	Major Resolutions of Shareholders' Meeting	Implementation																			
2022.05.24 (Annual Shareholders' Meeting)	Recognition matters (proposed by the Board of Directors)																				
	Adoption of the 2021 Business Report and Financial Statements	<p>The 2021 individual financial statements and consolidated financial statements have been approved by the accountant Chien-Hui, Lu and Wan-Yuan Yu of KPMG and have been approved on March 4, 2022 in the Board of Directors.</p> <p>The information of the 2021 consolidated financial statements is as follows: (Unit: NT\$ thousands (except for Earnings Per Share: NT\$))</p> <table><tr><td colspan="2">Consolidated Statements of Comprehensive Income</td></tr><tr><td>Net operating revenue</td><td>62,557,192</td></tr><tr><td>Gross operating profit</td><td>19,099,784</td></tr><tr><td>Net operating profit</td><td>9,084,449</td></tr><tr><td>Net profit before tax</td><td>9,737,614</td></tr><tr><td>Net profit after tax</td><td>8,147,215</td></tr><tr><td>Total Comprehensive Income</td><td>8,147,215</td></tr><tr><td>Basic EPS (after tax)</td><td>41.34</td></tr></table>	Consolidated Statements of Comprehensive Income		Net operating revenue	62,557,192	Gross operating profit	19,099,784	Net operating profit	9,084,449	Net profit before tax	9,737,614	Net profit after tax	8,147,215	Total Comprehensive Income	8,147,215	Basic EPS (after tax)	41.34			
	Consolidated Statements of Comprehensive Income																				
	Net operating revenue	62,557,192																			
	Gross operating profit	19,099,784																			
Net operating profit	9,084,449																				
Net profit before tax	9,737,614																				
Net profit after tax	8,147,215																				
Total Comprehensive Income	8,147,215																				
Basic EPS (after tax)	41.34																				
Adoption of the Proposal for Distribution of 2021 Profits	<p>The distribution of cash dividends to the shareholders of the Company for the year 2021 is as follows:</p> <table><tr><th></th><th>Date of Board Resolution (Day/Month/Year)</th><th>Distribution date (Day/Month/Year)</th><th>Cash dividend per share (NT\$)</th></tr><tr><td>2021</td><td></td><td></td><td></td></tr><tr><td>First half of the year</td><td>2021/08/06</td><td>2022/01/20</td><td>10</td></tr><tr><td>Second half of the year</td><td>2022/03/04</td><td>2022/07/29</td><td>13</td></tr><tr><td colspan="3">Total</td><td>23</td></tr></table>		Date of Board Resolution (Day/Month/Year)	Distribution date (Day/Month/Year)	Cash dividend per share (NT\$)	2021				First half of the year	2021/08/06	2022/01/20	10	Second half of the year	2022/03/04	2022/07/29	13	Total			23
	Date of Board Resolution (Day/Month/Year)	Distribution date (Day/Month/Year)	Cash dividend per share (NT\$)																		
2021																					
First half of the year	2021/08/06	2022/01/20	10																		
Second half of the year	2022/03/04	2022/07/29	13																		
Total			23																		
Election matters (proposed by the Board of Directors)																					
By-election of a director of the Company	<p>List of elected directors:</p> <p>Representative of Chengshuo Investment Co., Ltd.: Chih-Jen Hsu</p>																				

Time	Major Resolutions of Shareholders' Meeting	Implementation
	Discussion Matters (proposed by the Board of Directors)	
	Proposal for private placement for common shares of the Company	This private stock issuance has been cancelled on March 15, 2023 in the Board of Directors and will be reported to the 2023 shareholders' meeting.
	Partial amendment to the Company's "Articles of Incorporation"	The resolution has been passed and operated according to the "Articles of Incorporation" ,which was approved by the Ministry of Economic Affairs for registration on June 2, 2022 and published on the Company's website.
	Partial amendment to "Rules of Procedure for Shareholders' Meeting"	This resolution has been implemented and published in MOPS on May 24, 2022.
	Partial amendment to the "Procedures for Acquisition or Disposal of Assets", "Procedures for Loaning of Funds to Other Parties", and "Procedures for Endorsement and Guarantee".	This resolution has been implemented and published in MOPS on May 24, 2022.

### 3.4.11.2 Important Resolutions by Board Meetings

Session	Time	Important Resolutions by Board Meetings
The 24th Meeting of the Ninth Term	2022.05.06	(Proposed by the Audit Committee) The Company's 2022 1st quarter financial statements
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
The 25th Meeting of the Ninth Term	2022.06.02	(Proposed by the Audit Committee) The Company proposes to exchange its shares in UD info Corp. for new shares issued by UD info Corp.
		(Proposed by the Audit Committee) The Company proposes to establish a joint venture with Emtops Electronics Corp., Ltd., a 100%-owned subsidiary of the Company, to establish an Indian subsidiary.
The 26th Meeting of the Ninth Term	2022.07.15	(Proposed by the Audit Committee) The Company proposes to repurchase the issued shares of the Company and transfer them to the employees
		(Proposed by the Audit Committee) The Company proposes to formulate the "FY2022 Employee Stock Option Plan and Share Subscription Procedures".
The 27th Meeting of the Ninth Term	2022.07.29	(Proposed by the Audit Committee) Financial Statements and Business Report of the Company for the Second Quarter (First Half of the Year) of 2022
		(Proposed by the Audit Committee) Earnings Distribution Table for the first half of 2022
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
		(Proposed by the Audit Committee) Early Termination of the Lease of the Building on the 1st Floor of Super Storage Technology Corp.(SSTEK), which is a 2nd-tier sub-subsidiary of the Company
		(Proposed by the Audit Committee) Partial amendment to the "Internal Audit System" of the Company



Session	Time	Important Resolutions by Board Meetings
		(Proposed by the Audit Committee) Preparation of the Company's "Procedures for Audit of Measures for the Transfer of the Repurchased Shares to Employees"
		(Proposed by the Remuneration Committee) Review of the amendments to the "Meals Management Measures" of the Company
		(Proposed by the Remuneration Committee) Review of the proposals for the regular performance evaluation of the directors and managers of the Company and the performance incentive bonus for the managers, and the payment of directors' remuneration and managers' employee remuneration for the year of 2021.
The 28th Meeting of the Ninth Term	2022.08.19	(Proposed by the Remuneration Committee) Proposal of the cancellation of the list of managers for the employee stock option certificates issued by the Company for the first time in Year 2021
		(Proposed by the Compensation Committee) The Company's register of managerial officers and the subscription price list for the first issue of employee stock option certificates under the "FY2022 Employee Stock Option Plan and Share Subscription Procedures"
		(Proposed by the Audit Committee) The Company proposes to authorize its representative to register the establishment of the Indian subsidiary.
		(Proposed by the Audit Committee) Proposal of the cancellation of the employee stock option certificates issued by the Company for the first time in Year 2021
		(Proposed by the Audit Committee) The Company's register and the subscription price list for the first issue of employee stock option certificates under the "FY2022 Employee Stock Option Plan and Share Subscription Procedures"
		(Proposed by the Audit Committee) The Company proposes to repurchase the issued shares of the

Session	Time	Important Resolutions by Board Meetings
		Company and transfer them to the employees, and revise the " Measures for the Transfer of the Repurchased Shares to Employees" in accordance with the requirements of the Financial Supervisory Commission.
		Review of the list of managers who have resigned from the Company
The 29th Meeting of the Ninth Term	2022.11.04	(Proposed by the Audit Committee) The Company's financial statements for the 3rd quarter of 2022
		(Proposed by the Audit Committee) The Company proposes to evaluate the CPA independence and suitability
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
		(Proposed by the Audit Committee) Partial amendment to "Regulations for the Employee Welfare Committee" of the Company's internal system
		(Proposed by the Audit Committee) Formulation of the "Information and Communication Security Control Procedures" and "Information and Communication Security Control Audit Procedures" of the Company
		Formulation of the Company's 2022 Audit Plan
		Amendments to the "Corporate Governance Best-Practice Principles" of the Company
The 30th Meeting of the Ninth Term	2022.12.20	(Proposed by the Audit Committee) The Company proposes to formulate the " Operation Procedures for Handling Internal Material Information of Phison Electronics Corporation"
		(Proposed by the Audit Committee) Formulation of the Company's "Internal Material Information Processing Audit Procedure"

Session	Time	Important Resolutions by Board Meetings
		(Proposed by the Audit Committee) Formulation of the Company's "General Policy for Prior Approval of Non-Convicted Services"
		(Proposed by the Audit Committee) Formulation of the "Tax Governance Policy" of the Company
		(Proposed by the Audit Committee) Partial amendment to the Company's accounting system regulations
		Discussion of amendments to the Company's "Audit Plan for the Year 2023"
The 31st Meeting of the Ninth Term	2023.01.12	(Proposed by the Remuneration Committee) Review of the 2023 Goal Setting Proposal upon Adjustment by the CEO and the General Manager of the Company
		(Proposed by the Remuneration Committee) Review of the regular performance evaluation and year-end performance incentive bonus payment plan of the managers of the Company
		(Proposed by the Audit Committee) For the matter regarding the exercised second of FY2019 and first of FY2020 employee stock options to be registered to new common shares
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
The 32nd Meeting of the Ninth Term	2023.03.15	(Proposed by the Audit Committee) Distribution of Remuneration for Employees and Directors of the Company for the Year of 2022
		(Submitted by the Audit Committee) The Company's Business Report and Financial Statements of 2022
		(Proposed by the Audit Committee) Earnings Distribution statement of 2022
		(Proposed by the Audit Committee) ) The Company's statements of distributed cash dividends from earnings for the second half of 2022

Session	Time	Important Resolutions by Board Meetings
		(Proposed by the Audit Committee) Operation Plan for 2023
		(Proposed by the Audit Committee) The remuneration for the appointed CPAs of the Company for 2023 and 2024 and the assessment of the independence and competency of the appointed CPAs for 2023
		(Proposed by the Audit Committee) The Company's Statement of Internal Control System for 2022
		(Proposed by the Audit Committee) Partial amendment to the Company's "Production Cycle" and "Approval Authority Table"
		(Proposed by the Audit Committee) The Company's plan not to proceed with the private placement of common shares decided to be issued at 2022 regular meeting of shareholders
		(Proposed by the Audit Committee) The Company's private placement of common shares
		(Proposed by the Audit Committee) Partial amendment to the Company's "Rules of Procedures of the Board of Directors"
		(Proposed by the Compensation Committee) Review of the compensation amount from profit payment to directors, and the amount and method rewarding employees who assume as director or manager concurrently from employee remuneration of 2022
		Comprehensive re-election of directors
		The Company's plan to convene the 2023 annual shareholders' meeting
The 33rd Meeting of the Ninth Term	2023.04.20	(Proposed by the Audit Committee) Amendments to the Company's Earnings Distribution Statement of 2022
		(Proposed by the Audit Committee) Amendments to Certain Provisions of the "Measures for the Transfer of the Repurchased Shares to Employees" of the Company

Session	Time	Important Resolutions by Board Meetings
		The Board of Directors of the Company nominates and reviews the list of candidates for the nine directors (including three independent directors) of the tenth term of the Board of Directors for re-election at the Annual Shareholders' Meeting of 2023.
		Release newly appointed Directors of the Company from non-compete restrictions.
The 34rd Meeting of the Ninth Term	2023.05.05	(Proposed by the Audit Committee) The Company's financial statements for the 1st quarter of 2023
		(Proposed by the Audit Committee) The credit line of banks for the Company
		(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company
		(Proposed by the Audit Committee) For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares
		(Proposed by the Remuneration Committee) Reviewing revisions for the partial articles of “Payroll Management Regulation”
		(Proposed by the Remuneration Committee) Reviewing the proposal for the fixed annual salary adjustment for managerial officers
		(Proposed by the Remuneration Committee) Reviewing the proposal 2023 KPIs and compensation package for partial Senior Executive

**3.4.12 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Approved by the Board of Directors up to the Publication Date: None.**

**3.4.13 Resignation or Dismissal of the Company’s Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D: None.**

### 3.5 Information Regarding the Company's CPA fees

Unit: NT\$ thousand

Accounting Firm	Name of CPA	Audit Period	Audit fee	Non-audit fee	Total	Note
KPMG	Chien Hui Lu	2022/01/01~ 2022/ 12/31	6,740	2,069	8,809	[Note]
	Wan Yuan Yu					

[Note] Non audit expenses are mainly used to pay: Tax certificate, order transfer pricing reports, country-by-country reports and other consulting service costs etc.

**3.5.1 If the CPAs were replaced and the audit fee is less than that of the previous year, the amount of audit fee and the reasons should be disclosed: Not applicable.**

**3.5.2 The audit fee is less than that of the previous year by 10%, the amount of audit fee, ratio and the reasons should be disclosed: Not applicable.**

### 3.6 Replacement of CPA:None.

**3.6.1 About the former CPA: Not applicable.**

**3.6.2 About the successor CPA: Not applicable.**

**3.6.3 Where the former CPA holds different opinions about the sending of letter of stipulated matters in 10.6.1 and 10.6.2.3 in the Regulations Governing Information to be Published in Annual Reports of Public Companies to the former CPA, and notification of CPAs, the reply shall be made within ten days. The Company shall disclose the reply of the former CPA: Not applicable.**

**3.7 The Company's chairman, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None.**

### 3.8 Stock Transfer and Pledge of Directors, Supervisors, Management Team and Major Shareholders Who Own 10% of the Stock in the Most Recent Year and as of the Publication Date of the Annual Report

#### 3.8.1 Equity transfer or changes to equity pledge of directors, supervisors, managerial officers, or shareholders holding more than 10% of company shares

Title	Name	2022		Current Year as of March 31, 2023	
		Current shareholding Increase (Decrease)	Pledged Shareholding Increase (Decrease)	Current shareholding Increase (Decrease)	Pledged Shareholding Increase (Decrease)
Chairman/Representative of Director Chenghe Investment Co., Ltd. /Vice President	Wee Kuan Gan	23,000	-	-	-
Director	Cheng He Investment Co., Ltd.	-	-	20,000	-
Director/ President	Chee Kong Aw Yong	34,255	-	-	-
Director	Tzung Horng Kuang	20,000	-	5,000	-
Director	Jiunn Yeong Yang	-	-	-	-
Director	Cheng Shuo Investment Limited	-	-	30,000	-
Representative of Cheng Shuo Investment Limited / Vice Technical President	Chih Jen Hsu	-	-	-	-
Director	KIOXIA Corporation	-	-	-	-
Representative of KIOXIA Corporation, a director	Hiroshi Miyauchi	-	-	-	-
Independent Director	Chen Wei Wang	-	-	-	-
Independent Director	Wen Chiu Chung	-	-	-	-
Independent Director	Yu Lun Huang	-	-	-	-
CEO	Khein Seng Pua	615,500	-	-	-
Vice President (Note)	Kuo Yi Cheng	-	-	25,000	-
Vice President	Chung Hsun Ma	-	-	5,000	-
Head of Finance and Accounting Department	Pao Feng Chen	-	-	-	-
Senior Special Assistant and Chief Operating Officer	Zhi Chyang Yu	-	-	-	-

Note: Deputy General Manager Kuo Yi Cheng took office on March 1, 2022.

#### 3.8.2 Shares Trading with Related Parties: None.

### 3.9 Relationship among the Top Ten Shareholders

April 2, 2023

Name	Current Shareholding		Spouse's/Minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees of Kinship		Remark
	Number of Shares (Shares)	Shareholding (%)	Number of Shares (Shares)	Shareholding (%)	Number of Shares (Shares)	Shareholding (%)	Description (or Name)	Relation	
Trusted Investment Account of KIOXIA Corp. by First Bank	19,821,112	9.93	N/A	N/A	1,000	0.00	None	None	None
Representative: Hiroshi Miyauchi	0	0.00	0	0.00	0	0.00	None	None	None
Fubon Life Insurance Co., Ltd.	5,320,000	2.66	N/A	N/A	N/A	N/A	None	None	None
Responsible person: Richard M. Tsai	No information accessible						None	None	None
Khein Seng Pua	5,173,472	2.59	806,262	0.40	4,789,144	2.40	Cheng He Investment Co., Ltd.	Company Responsible person	None
Jiunn Yeong Yang	4,549,114	2.28	0	0.00	0	0.00	None	None	None
Taiwan Life Insurance Co., Ltd.	4,152,000	2.08	N/A	N/A	N/A	N/A	None	None	None
Responsible person: Tai Keh Cheng	No information accessible						None	None	None
Norges Bank - internal - NBIM PF EQ INTERNAL CFD	4,069,504	2.04	N/A	N/A	N/A	N/A	None	None	None
Chee Kong Aw Yong	3,498,000	1.75	100,000	0.05	422,000	0.21	None	None	None
Cheng He Investment Co., Ltd.	2,403,000	1.20	N/A	N/A	N/A	N/A	Khein Seng Pua	Company Responsible person	None
Responsible person: Khein Seng Pua	5,173,472	2.59	806,262	0.40	4,789,144	2.40	None	None	None
Yuantai Taiwan High-yield Leading Company Fund	2,338,000	1.17	N/A	N/A	N/A	N/A	None	None	None
Hon Wai Ng	2,315,375	1.16	11,561	0.01	0	0.00	None	None	None



### 3.10 Consolidated Number of Shares owned by Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company

December 31, 2022, Unit: share, %

Name of the Investment Company	Name of be Reinvested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company		Consolidated Investment	
		Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)
The Company	Emtops Electronics Corporation	38,000,000	100.00	0	0.00	38,000,000	100.00
The Company	Lian Xu Dong Investment Corporation	65,000,000	100.00	0	0.00	65,000,000	100.00
The Company	Microtops Design Corporation	2,263,800	49.00	2,356,200	51.00	4,620,000	100.00
The Company	Phison Electronics Japan Corp.	2,000	100.00	0	0.00	2,000	100.00
The Company	Global Flash Limited	22,100,000	100.00	0	0.00	22,100,000	100.00
The Company	EpoStar Electronics (BVI) Corporation	6,288,523	30.51	0	0.00	6,288,523	30.51
The Company	Phisontech Electronics Taiwan Corp.	55,000,000	100.00	0	0.00	55,000,000	100.00
The Company	Power Flash (Samoa) Limited	4,800,000	100.00	0	0.00	4,800,000	100.00
The Company	Regis Investment (Samoa) Limited	21,900,000	100.00	0	0.00	21,900,000	100.00
The Company	ProGrade Digital Inc.	2,785,000	28.71	0	0.00	2,785,000	28.71
The Company	Nextorage Corporation	12,000	100.00	0	0.00	12,000	100.00
The Company	Phison Technology India Private Limited	2,299,990	100.00	0	0.00	2,299,990	100.00
Lian Xu Dong Investment Corporation	Ostek Corporation	900,000	100.00	0	0.00	900,000	100.00
Emtops Electronics	Phison Technology Inc.	3,000,000	100.00	0	0.00	3,000,000	100.00

Name of the Investment Company	Name of be Reinvested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company		Consolidated Investment	
		Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)
Corporation							
Emtops Electronics Corporation	Phison Technology India Private Limited	10	0.00	0	0.00	10	0.00
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	34,842,595	100.00	0	0.00	34,842,595	100.00
Global Flash Limited	Core Storage Electronic (Samoa) Limited	19,150,000	100.00	0	0.00	19,150,000	100.00
Power Flash (Samoa) Limited	Power Flash (HK) Limited	3,000,000	100.00	0	0.00	3,000,000	100.00
Power Flash (Samoa) Limited	Power Storage Technology (Shenzhen) Limited	[Note 1]	100.00	0	0.00	[Note 1]	100.00
Regis Investment (Samoa) Limited	RealYou Investment Limited	21,850,000	100.00	0	0.00	21,850,000	100.00
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	[Note 2]	100.00	0	0.00	[Note 2]	100.00
Hefei Ruhan Electronic Technology Limited	Hefei Xinpeng Technology Co., Ltd.	[Note 3]	24.23	0	0.00	[Note 3]	24.23
RealYou Investment Limited	HOSIN Global Electronics Co., Ltd.	50,000,000	12.31	0	0.00	50,000,000	12.31
Core Storage Electronic (Samoa) Limited	HOSIN Global Electronics Co., Ltd.	108,594,900	26.73	2,250,000	0.56	110,844,900	27.29

[Note 1] Investment of CNY 10,000 thousand /NT\$ 43,520 thousand.

[Note 2] Investment of CNY 40,800 thousand /NT\$ 182,825 thousand.

[Note 3] Investment of CNY 40,000 thousand /NT\$175,460 thousand.

# Chapter 4

## Capital Overview



# Chapter 4 Capital Overview

## 4.1 Capital and Shares

### 4.1.1 Source of capital

#### 4.1.1.1 Issued Shares

Unit: NT\$, share

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2000.11	10	12,000	120,000	3,000,000	30,000,000	Founding capital	None	Note 01
2002.03	10	12,000	120,000	5,000,000	50,000,000	Capital increased by cash: NT\$20,000,000	None	Note 02
2002.05	38	12,000	120,000	6,407,948	64,079,480	Capital increased by surplus: NT\$6,739,480 and capital increased by cash: NT\$7,340,000	None	Note 03
2003.01	45	12,000	120,000	7,907,948	79,079,480	Capital increased by cash: NT\$15,000,000	None	Note 04
2003.04	10	30,000	300,000	17,329,055	173,290,550	Capital increased by surplus: NT\$66,533,250 and capital increased by capital reserve: NT\$27,677,820	None	Note 05
2003.08	28	30,000	300,000	17,695,055	176,950,550	Capital increased by cash: NT\$3,660,000	None	Note 06
2004.08	10	60,000	600,000	35,751,099	357,510,990	Capital increased by surplus: NT\$180,560,440	None	Note 07
2004.11	10	60,000	600,000	35,958,099	359,580,990	Capital increased by employee stock option: NT\$2,070,000	None	Note 08
2005.01	10	60,000	600,000	36,232,099	362,320,990	Capital increased by employee stock option: NT\$2,740,000	None	Note 09
2005.06	10	60,000	600,000	36,255,099	362,550,990	Capital increased by employee stock option: NT\$230,000	None	Note 10
2005.08	10	60,000	600,000	47,155,124	471,551,240	Capital increased by surplus: NT\$108,580,250 and capital increased by employee stock option: NT\$420,000	None	Note 11
2005.11	110	60,000	600,000	51,680,124	516,801,240	Capital increased by cash: NT\$45,000,000 and capital increased by employee stock option: NT\$250,000	None	Note 12
2006.02	10	60,000	600,000	52,212,124	522,121,240	Capital increased by employee stock option: NT\$5,320,000	None	Note 13
2006.05	10	60,000	600,000	52,708,124	527,081,240	Capital increased by employee stock option: NT\$4,960,000	None	Note 14
2006.08	10	80,000	800,000	70,577,124	705,771,240	Capital increased by surplus: NT\$177,500,000 and capital increased by employee stock option: NT\$1,190,000	None	Note 15
2007.01	120.5	100,000	1,000,000	72,577,124	725,771,240	<b>Private common stock NT\$20,000,000</b>	None	Note 16
2007.07	214	100,000	1,000,000	76,577,124	765,771,240	<b>Private common stock NT\$40,000,000</b>	None	Note 17

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2007.08	10	130,000	1,300,000	100,180,261	1,001,802,610	Capital increased by surplus: NT\$217,731,370 and capital increased by employee stock option: NT\$18,300,000	None	Note 18
2007.11	239	130,000	1,300,000	101,180,261	1,011,802,610	<b>Private common stock NT\$10,000,000</b>	None	Note 19
2008.06	128	130,000	1,300,000	102,380,261	1,023,802,610	<b>Private common stock NT\$12,000,000</b>	None	Note 20
2008.06	165	130,000	1,300,000	104,480,261	1,044,802,610	<b>Private common stock NT\$21,000,000</b>	None	Note 20
2008.09	10	130,000	1,300,000	126,766,313	1,267,663,130	Capital increased by surplus: NT\$222,860,520	None	Note 21
2009.03	53	180,000	1,800,000	128,466,313	1,284,663,130	<b>Private common stock NT\$17,000,000</b>	None	Note 22
2009.05	117.5	180,000	1,800,000	134,066,313	1,340,663,130	<b>Private common stock NT\$56,000,000</b>	None	Note 23
2009.08	10	180,000	1,800,000	146,727,286	1,467,272,860	Capital increased by surplus: NT\$126,609,730	None	Note 24
2010.02	10	180,000	1,800,000	147,264,786	1,472,647,860	Capital increased by employee stock option: NT\$5,375,000	None	Note 25
2010.05	10	180,000	1,800,000	147,517,286	1,475,172,860	Capital increased by employee stock option: NT\$2,525,000	None	Note 26
2010.07	10	180,000	1,800,000	147,537,286	1,475,372,860	Capital increased by employee stock option: NT\$200,000	None	Note 27
2010.08	10	230,000	2,300,000	177,040,743	1,770,407,430	Capital increased by surplus: NT\$295,034,570	None	Note 28
2010.11	10	230,000	2,300,000	177,078,743	1,770,787,430	Capital increased by employee stock option: NT\$380,000	None	Note 29
2011.01	10	230,000	2,300,000	177,360,243	1,773,602,430	Capital increased by employee stock option: NT\$2,815,000	None	Note 30
2011.05	10	230,000	2,300,000	178,526,243	1,785,262,430	Capital increased by employee stock option: NT\$11,660,000	None	Note 31
2011.07	10	230,000	2,300,000	178,633,743	1,786,337,430	Capital increased by employee stock option: NT\$1,075,000	None	Note 32
2011.10	10	230,000	2,300,000	178,753,243	1,787,532,430	Capital increased by employee stock option: NT\$1,195,000	None	Note 33
2012.01	10	230,000	2,300,000	178,832,743	1,788,327,430	Capital increased by employee stock option: NT\$795,000	None	Note 34
2012.05	10	230,000	2,300,000	180,021,743	1,800,217,430	Capital increased by employee stock option: NT\$11,890,000	None	Note 35
2012.08	10	230,000	2,300,000	180,025,743	1,800,257,430	Capital increased by employee stock option: NT\$40,000	None	Note 36
2012.11	10	230,000	2,300,000	180,162,243	1,801,622,430	Capital increased by employee stock option: NT\$1,365,000	None	Note 37
2013.02	10	230,000	2,300,000	180,473,993	1,804,739,930	Capital increased by employee stock option: NT\$3,117,500	None	Note 38
2014.07	10	230,000	2,300,000	185,473,993	1,854,739,930	<b>Private common stock NT\$50,000,000</b>	None	Note 39
2015.03	10	230,000	2,300,000	197,373,993	1,973,739,930	<b>Private common stock NT\$119,000,000</b>	None	Note 40
2016.12	10	260,000	2,600,000	197,073,993	1,970,739,930	Eliminating treasury stock of NT\$3,000,000	None	Note 41

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2019.06	10	280,000	2,600,000	197,073,993	1,970,739,930	None	None	Note 42
2020.07	10	300,000	3,000,000	197,073,993	1,970,739,930	None	None	Note 43
2023.02	10	300,000	3,000,000	198,658,493	1,986,584,930	Capital increased by employee stock option: NT\$15,845,000	None	Note 44

[Note 01] This capital increase was approved by the Ministry of Economic Affairs on November 8, 2000 with Letter No. Chung 89521752.

[Note 02] This capital increase was approved by the Ministry of Economic Affairs on March 25, 2002 with Letter No. Chung 09131849090.

[Note 03] This capital increase was approved by the Ministry of Economic Affairs on May 23, 2002 with Letter No. Chung 09132153980.

[Note 04] This capital increase was approved by the Ministry of Economic Affairs on January 28, 2003 with Letter No. Chung 09231612830.

[Note 05] This capital increase was approved by the Ministry of Economic Affairs on April 28, 2003 with Letter No. Chung 09201127820.

[Note 06] This capital increase was approved by the Ministry of Economic Affairs on August 4, 2003 with Letter No. Chung 09232463150.

[Note 07] This capital increase was approved by the Ministry of Economic Affairs on August 26, 2004 with Letter No. Chung 09332620870.

[Note 08] This capital increase was approved by the Ministry of Economic Affairs on November 12, 2004 with Letter No. Chung 09333010190.

[Note 09] This capital increase was approved by the Ministry of Economic Affairs on January 18, 2005 with Letter No. Chung 09431571170.

[Note 10] This capital increase was approved by the Ministry of Economic Affairs on April 18, 2005 with Letter No. Chung 09431980500.

[Note 11] This capital increase was approved by the Ministry of Economic Affairs on August 31, 2005 with Letter No. Chung 09432758570.

[Note 12] This capital increase was approved by the Ministry of Economic Affairs on November 8, 2005 with Letter No. Shan 09401222320.

[Note 13] This capital increase was approved by the Ministry of Economic Affairs on February 16, 2006 with Letter No. Shan 09501027990.

[Note 14] This capital increase was approved by the Ministry of Economic Affairs on May 22, 2006.05.22 with Letter No. Shan 09501093420.

[Note 15] This capital increase was approved by the Ministry of Economic Affairs on August 8, 2006 with Letter No. Shan 09501172160.

[Note 16] This capital increase was approved by the Ministry of Economic Affairs on January 12, 2007 with Letter No. Shan 09601006390.

[Note 17] This capital increase was approved by the Ministry of Economic Affairs on July 4, 2007 with Letter No. Shan 09601142790.

[Note 18] This capital increase was approved by the Ministry of Economic Affairs on August 27, 2007 with Letter No. Shan 09601209920.

- [Note 19] This capital increase was approved by the Ministry of Economic Affairs on November 16, 2007 with Letter No. Shan 09601280340.
- [Note 20] This capital increase was approved by the Ministry of Economic Affairs on June 30, 2008 with Letter No. Shan 09701153220.
- [Note 21] This capital increase was approved by the Ministry of Economic Affairs on September 2, 2008 with Letter No. Shan 09701224760.
- [Note 22] This capital increase was approved by the Ministry of Economic Affairs on March 6, 2009 with Letter No. Shan 09801042190.
- [Note 23] This capital increase was approved by the Ministry of Economic Affairs on May 22, 2009 with Letter No. Shan 09801102570.
- [Note 24] This capital increase was approved by the Ministry of Economic Affairs on July 24, 2009 with Letter No. Shan 09801161440.
- [Note 25] This capital increase was approved by the Ministry of Economic Affairs on February 24, 2010 with Letter No. Shan 09901035290.
- [Note 26] This capital increase was approved by the Ministry of Economic Affairs on May 14, 2010 with Letter No. Shan 09901098090.
- [Note 27] This capital increase was approved by the Ministry of Economic Affairs on July 19, 2010 with Letter No. Shan 09901160360.
- [Note 28] This capital increase was approved by the Ministry of Economic Affairs on August 24, 2010 with Letter No. Shan 09901189940.
- [Note 29] This capital increase was approved by the Ministry of Economic Affairs on November 24, 2010 with Letter No. Shan 09901263780.
- [Note 30] This capital increase was approved by the Ministry of Economic Affairs on January 17, 2011 with Letter No. Shan 10001009260.
- [Note 31] This capital increase was approved by the Ministry of Economic Affairs on May 18, 2011 with Letter No. Shan 10001102080.
- [Note 32] This capital increase was approved by the Ministry of Economic Affairs on July 26, 2011 with Letter No. Shan 10001170190.
- [Note 33] This capital increase was approved by the Ministry of Economic Affairs on October 18, 2011 with Letter No. Shan 10001239220.
- [Note 34] This capital increase was approved by the Ministry of Economic Affairs on January 20, 2012 with Letter No. Shan 10101014700.
- [Note 35] This capital increase was approved by the Ministry of Economic Affairs on May 9, 2012 with Letter No. Shan 10101083930.
- [Note 36] This capital increase was approved by the Ministry of Economic Affairs on August 15, 2012 with Letter No. Shan 10101167840.
- [Note 37] This capital increase was approved by the Ministry of Economic Affairs on November 13, 2012 with Letter No. Shan 10101235590.
- [Note 38] This capital increase was approved by the Ministry of Economic Affairs on February 20, 2013 with Letter No. Shan 10201030590.
- [Note 39] This capital increase was approved by the Ministry of Economic Affairs on July 3, 2014 with Letter No. Shan 10301126590.
- [Note 40] This capital increase was approved by the Ministry of Economic Affairs on March 11, 2015 with Letter No. Shan 10401035870.
- [Note 41] This capital increase was approved by the Ministry of Economic Affairs on December 5, 2016 with Letter No. Shan 10501280670.
- [Note 42] This capital increase was approved by the Ministry of Economic Affairs on June 25, 2019 with Letter No. Shan 10801075380.
- [Note 43] This capital increase was approved by the Ministry of Economic Affairs on July 1, 2020 with Letter No. Shan 10901107200.
- [Note 44] This capital increase was approved by the Ministry of Economic Affairs on February 2, 2023 with Letter No. Shan 11230013150.

#### 4.1.1.2 Stock class

April 2, 2023; Unit: share

Stock class	Authorized capital			Remark
	Outstanding shares	Unissued shares	Total	
Common stock	199,624,993	100,375,007	300,000,000	199,624,993 shares are listed in TPEx shares

#### 4.1.2 Shareholder Structure

April 2, 2023; Unit: share, %

Shareholder Structure Number	Government agencies	Financial institutions	Other institutional shareholders	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	5	96	326	44,425	442	45,294
Current shareholding	3,579,568	25,800,069	16,236,575	87,097,974	66,910,807	199,624,993
Shareholding (%)	1.79	12.92	8.14	43.63	33.52	100.00

#### 4.1.3 Shareholding Distribution Status

April 2, 2023; Unit: share

Shareholding range	Number of shareholders	Current shareholding	Percentage (%)
1 to 999	25,852	2,793,774	1.40
1,000 to 5,000	16,547	29,256,184	14.66
5,001 to 10,000	1,367	10,466,251	5.24
10,001 to 15,000	453	5,776,057	2.89
15,001 to 20,000	282	5,124,980	2.57
20,001 to 30,000	275	6,947,256	3.48
30,001 to 40,000	100	3,540,034	1.77
40,001 to 50,000	84	3,869,372	1.94
50,001 to 100,000	177	12,419,863	6.22
100,001 to 200,000	71	9,732,807	4.88
200,001 to 400,000	31	8,673,205	4.34
400,001 to 600,000	14	6,885,615	3.45
600,001 to 800,000	8	5,392,958	2.70
800,001 to 1,000,000	8	7,229,354	3.62
> 1,000,001	25	81,517,283	40.84
Total	45,294	199,624,993	100.00

[Note1] All the shares of the Company are common stocks, no preferred stock is issued.



#### 4.1.4 List of Major Shareholders

April 2, 2023; Unit: share

Major shareholder's name	Stock	Current shareholding	Percentage (%)
Trusted Investment Account of KIOXIA Corp. by First Bank		19,821,112	9.93
Fubon Life Insurance Co., Ltd.		5,320,000	2.66
Khein Seng Pua		5,173,472	2.59
Jiunn Yeong Yang		4,549,114	2.28
Taiwan Life Insurance Co., Ltd.		4,152,000	2.08
Norges Bank - internal - NBIM PF EQ INTERNAL CFD		4,069,504	2.04
Chee Kong Aw Yong		3,498,000	1.75
Cheng He Investment Co., Ltd.		2,403,000	1.20
Yuanta Taiwan High-yield Leading Company Fund		2,338,000	1.17
Hon Wai Ng		2,315,375	1.16

#### 4.1.5 Market Price, Net Worth, Earnings, Dividend and Related Information over the Last Two Years

Unit: NT\$

Item			Year	2021	2022	Current year up to March 31, 2023
Market price per share	Highest			620.00	545.00	312.00
	Lowest			325.50	248.00	403.50
	Average			456.59	390.05	361.69
Net worth per share	Before distribution			189.31	196.19	194.03
	After distribution			176.31	191.67 (Note 1)	-
Earnings per share	Weighted average shares (thousand shares)			197,074	194,935	192,254
	EPS	Before adjustment		41.34	27.71	1.26
		After adjustment		41.34	27.71	-
Dividends per share	Cash dividends (Note 2)			23.00	14.77746561	-
	Free allotment	Dividends from retained earnings		-	-	-
		Dividends from capital surplus		-	-	-
	Cumulative unpaid dividends			-	-	-
Investment Compensation Analysis	Price/Earnings ratio (Note 3)			11.04	14.01	-
	Price/Dividends ratio (Note 4)			19.85	26.27	-
	Cash Dividend Yield Rate (Note 5)			5.04	3.81	-

Note 1: Book value per share = Shareholders' equity / Total number of shares outstanding. Shareholders' equity is calculated by deducting the cash dividends of NT\$865,962 thousand from the Company's earnings distribution for the second half of 2022, approved by the Board of Directors on March 15, 2023.

Note 2: The Company's earnings distribution for the second half of 2022, approved by the Board of Directors on March 15, 2023, 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. The Company's cash dividends from the second half of 2022 earnings have not yet been distributed, and the Chairman is authorized to set the ex-dividend date, the payment date, and related matter.

Note 3:  $P/E \text{ Ratio} = \text{Current average closing price per share} / \text{earnings per share}$

Note 4:  $\text{Price/dividend ratio} = \text{Current average closing price per share} / \text{cash dividends per share}$

Note 5:  $\text{Cash dividend yield rate} = \text{Cash dividends per share} / \text{average market price}$

## **4.1.6 Dividend Policy and Implementation Status**

### **4.1.6.1 Dividends Policy on the Articles of Incorporation of the Company:**

Based on Phison's Article 19.1 of the Company, if there is net profit in the final financial statements, after offsetting any loss from prior year(s), 10% of the profit should be appropriated into capital reserve, however, if the capital reserve is up to the paid-in capital, this requirement is not applicable. In accordance with law or the competent authority, the Company shall also appropriate or reverse special reserves. The remaining earnings, together with unappropriated retained earnings would be reversed appropriately by the Board of Directors based on actual operating conditions, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.

If the earnings, statutory surplus reserve and capital reserve mentioned in the preceding paragraph are distributed in cash, the board of directors shall be authorized to distribute the same with the resolution of more than two-thirds of the directors present and a majority of the directors present, and report to the shareholders' meeting, when such distribution is made by issuing new shares, distribution shall be made upon submission to the shareholders' meeting for resolution.

The Company's earnings distribution or loss appropriation shall be made after the end of each semi-financial year. Before distributing the earnings, the taxable contributions shall be estimated and retained to make up for the accumulated losses, and the remuneration for employees and directors shall be estimated and retained in accordance with the provisions of Paragraph 1 under Article 19, and then 10% thereof shall be appropriated as statutory surplus reserve. When the accumulated statutory surplus reserve has reached the total paid-in capital of the Company, this limit is not applicable, and special surplus reserve shall be appropriated or reversed according to laws or regulations of the competent authority. For the remained earnings, including accumulated undistributed earnings at the beginning of the same period, a proposal shall be prepared by the board of directors and distribution shall be made in cash, and the board of directors shall be authorized to distribute the same with the resolution of more than two-thirds of the directors present and a majority of the directors present, and report to the shareholders' meeting, when such

distribution is made by issuing new shares, distribution shall be made upon submission to the shareholders' meeting for resolution.

The Company's policy on distribution of dividends shall comply with the laws and regulations and the Articles of Incorporation, and is required to take into account the Company's current and future domestic and overseas industrial competition, investment environment, working capital demand and capital budget and other factors, taking into account shareholders' rights and interests, balancing dividends and the company's long-term financial situation Planning, etc., to promote sustainable operation and stable development. The dividend distributed to shareholders of the Company can be distributed in cash or shares, of which the proportion of shareholders' cash dividend distribution shall be no less than 10% of the total dividends to the shareholders.

#### 4.1.6.2 Dividend distribution proposed by the board of directors this year:

The Company's cash dividends from earnings in 2022 is as follows:

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.

#### 4.1.6.3 Anticipated material changes in dividend policy: None.

**4.1.7 Effects of the dividends distribution on the operation performance and EPS of the Company: N/A.**

**4.1.8 Compensation for Employees and Directors**

**4.1.8.1** The percentage or range of remuneration for employees and directors as stated in the Company's Articles of Incorporation

According to Article 19 of the Articles of Incorporation 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." But the Company shall reserve a portion of profit to make up for accumulated losses, if any. Employee's remuneration may be distributed in shares or cash, and compensation of directors shall be paid in cash. The term "profit" as "pre-tax profits before deducting the distributed employees and directors' remuneration." Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of the attending directors approve. The remuneration resolution shall be reported in the annual general meeting.

**4.8.1.2** The basis for estimating the amount of employee and director, compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for 2022.

**(1)** The basis for estimating the remuneration to employees and directors in 2022:

Remuneration to employees and directors is based on the Company's profit of NT\$7,267,624 thousand in 2022 (profit refers to the profit before tax and before deducting the remuneration payment from profit to employees, directors). Remuneration to employees amounted to NT\$1,000,000,000 (accounting for 13.76% of the profit for 2022) and remuneration to directors amounted to NT\$35,000 thousand (accounting for 0.47% of the profit for 2022) was distributed, all in cash.

**(2)** Basis for calculating the number of shares for stock remuneration to employees:

The Company didn't distribute any stock remuneration to employees in 2022.

**(3)** Difference is Adjusted by Accounting Principles:

If difference exists between the actual allocation amount and estimated number, it shall be treated based on accounting estimation changes and adjusted and recorded in the account in the following year.

**4.1.8.3** Proposed compensation approved by the Board of Directors

- (1) The amount of remuneration paid to employees and directors in cash or stocks. If there is any discrepancy between that amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed.

On March 15, 2023, the board of directors of the Company passed the resolution on the distribution of remuneration to employees and directors for 2022 to distribute NT\$1,000,000 thousand as remuneration to employees and NT\$35,000 thousand as remuneration to directors, all in cash. There is no material difference between the allotted remuneration to employees and directors upon resolution and the estimated amount recognized and listed as the annual expense.

- (2) The ratio of the stock remuneration distributed to employees to the total net profit after tax and total remuneration to employees for the current period: The Company didn't distribute any stock remuneration to employees in 2022, so it's not applicable.

4.1.8.4 Information on distribution of compensation (including the distributed number of shares, amount and share price) to employees, directors, and supervisors for the previous year, and, if there are any discrepancies between the actual distribution and the recognized employee, director, or supervisor compensation, and the discrepancy, cause, and its treatment:

The differences between the remuneration distributed by the Company to employees, directors and supervisors in 2021 and the estimated and listed expenses for the year are stated as follows:

Unit: NT\$

Distribution Item	Amounts approved in Board meetings	Annual amount estimate recognition	Difference	Reasons for discrepancy and processing method
Employee Compensation	1,100,000,000	1,100,000,000	0	None
Remunerations to the Directors and Supervisors	50,000,000	50,000,000	0	

#### 4.1.9 Repurchase of shares by the Company: None.

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.

## 4.2 Status of Corporate Bonds:

### Status of Corporate Bonds

Corporate Bond Class		The first domestic unsecured convertible corporate bonds
Date of issuance (treatment)		December 17, 2021
Face value		NT\$ 100,000
Location of issuance and trading		N/A
Issue price		NT\$ 100.5
Total amount		NT\$ 3,500,000,000
Interest rate		Nominal interest rate 0%
Term		Three years. From December 17, 2021 to December 17, 2024
Guarantor		None
Trustee		Taipei Fubon Commercial Bank Co., Ltd.
Underwriter		Horizon Securities Corp.
Certified Lawyer		None
CPA		None
Repayment terms		Unless the bondholders converts the bonds into ordinary shares of the Company in accordance with Article 10 of the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond, or the Company redeems them in advance in accordance with Article 18 of the Regulations, or the Company repurchase and cancel them through a securities company's business office, the Company will repay the convertible corporate bonds in cash at the time of maturity based on the bond face value, and the payment will be made within ten business days (inclusive of the tenth business day) from the date of maturity.
Outstanding principal		NT\$ 3,500,000,000
Terms on Redemption or Prepayment		Please refer to the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond.
Restrictions		None
Name of the credit rating agency, rating date, corporate bond rating results		N/A
Additional rights	Amount of ordinary shares, overseas depositary receipts or other marketable securities converted (exchanged or subscribed) up to the date of publication of the Annual Report	As of April 2, 2023 the suspended conversion date of the Company Bond, No conversion situation of this convertible corporate bond.

	Regulations on Issuance and Conversion (Exchange or Subscription)	Please refer to the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond.
	Regulations on Issuance and Conversion, Exchange or Subscription of shares, issuance conditions which may dilute the equity and impact on existing shareholders' equity	Based on the estimation of the total number of outstanding shares of the Company as of the date of publication of the Annual Report of 199,625 thousand shares, where the maximum possible number of convertible ordinary shares of approximate 6,723 thousand shares (total issuance of NT\$3,500,000,000/NT\$520.6) are converted from convertible corporate bonds, the estimated dilution of the share capital is about 3.37%, due to the different timing to exercise the conversion right by creditors in the future, the total number of issued shares of the Company will gradually increase during the conversion period of December 17, 2021 to December 17, 2024. Due to the low increase rate and the increasingly dilution ratio of the existing shareholders' equity, the dilution effect is still limited.
	Name of the custodian institution for the exchange subject	N/A

#### Information of Corporate Bond for Conversion

Corporate Bond Class		The first domestic unsecured convertible corporate bonds	
Year		2022	Current year as of April 30, 2023
Market price of the corporate bond for conversion	Highest	NT\$ 124.60	NT\$ 111.00
	Lowest	NT\$ 97.00	NT\$ 99.00
	Average	NT\$ 113.39	NT\$ 104.82
Conversion price		NT\$ 520.6	
Date of issuance (treatment)		December 17, 2021	
Conversion price at issuance		Conversion price at issuance: NT\$ 570	
The way of performing the conversion obligations		For the common shares of the Company, the Company will perform the conversion obligations by issuing new shares. The new common shares for exchange will be transferred and delivered according to the account book, and will not be printed in physical form.	

**4.3 Status of Preferred Stocks: None.**

**4.4 Status of Global Depositary Receipts: None.**



## 4.5 Status of Employee Stock Option Plan:

### 4.5.1 Unexpired employee stock options shall disclose the processing situation up to the publication date of the annual report and the impact on shareholders' rights and interests:

May 12, 2023

Type of employee stock option certificate	1st of 2019 Employee stock option certificate		1st of 2020 Employee stock option certificate	
Date of effective registration and Total number of units	November 22, 2019 8,000,000 units		April 10, 2020 8,000,000 units	
Date of issuance (treatment)	December 30, 2019	October 5, 2020	October 5, 2020	Not issued
Units Issued	6,000,000 units	2,000,000 units	6,000,000 units	2,000,000 units
Number of units still available	0 units	0 units	0 units	0 units
Ratio of subscription shares to total issued and outstanding shares (%)	Canceled (Note 1)	1.01 (Note 3)	3.04 (Note 3)	In compliance with the regulations, it cannot be issued after April 9 2021.
Subscription Duration	Canceled (Note 1)	3 years	3 years	
Method for exercising the warrant	Issued by new stocks			
Conditional conversion periods and percentages (%)	Two years after the employee stock option was issued, 50% of the option can be traded. Two and half years after the employee stock option was issued, 100% of the option can be traded. The option is restricted when the preceding term overlaps with the book closure date.			
Converted shares	Canceled (Note 1)	708,000	1,843,000	
Exercised amount		164,441,850	427,659,200	
Number of shares yet to be converted		1,229,000 units	3,920,000 units	
Subscription price per share for unsubscribed shares		NT\$ 227.7 (Note 2)	NT\$ 227.7 (Note 2)	
Proportion of unexecuted subscription quantity in total shares issued (%)		0.62 (Note 3)	1.96 (Note 3)	
Impact to shareholders' equity	The employee stock options are exercisable after 2 years from the date of issuance, and the cumulative maximum exercise ratios are 50% after 2 years and 100% after 2.5 years, respectively. The stock options are exercisable in proportions after 2 years, and the total number of issued shares of the Company is gradually increased and the increase ratio is low, and the possible dilution ratio to the original shareholders' shares is gradually diluted, so the dilution effect is still limited.			

Type of employee stock option certificate	1st of 2021 Employee stock option certificate	1st of 2022 Employee stock option certificate
Date of effective registration and Total number of units	October 4, 2021 6,000,000 units	July 27, 2022 6,000,000 units
Date of issuance (treatment)	November 19, 2021	September 7, 2022
Units Issued	6,000,000 units	6,000,000 units
Number of units still available	0 units	0 units
Ratio of subscription shares to total issued and outstanding shares (%)	Canceled (Note 4)	3.01 (Note 3)
Subscription Duration	Canceled (Note 4)	4 years
Method for exercising the warrant	Issued by new stocks	
Conditional conversion periods and percentages (%)	Two years after the employee stock option was issued, 50% of the option can be traded. Three years after the employee stock option was issued, 100% of the option can be traded. The option is restricted when the preceding term overlaps with the book closure date.	
Converted shares	Canceled (Note 4)	0
Exercised amount		0
Number of shares yet to be converted		6,000,000 units
Subscription price per share for unsubscribed shares		NT\$284.4 (Note 2)
Proportion of unexecuted subscription quantity in total shares issued (%)		3.01 (Note 3)
Impact to shareholders' equity	The employee stock options are exercisable after 2 years from the date of issuance, and the cumulative maximum exercise ratios are 50% after 2 years and 100% after 3 years, respectively. The stock options are exercisable in proportions after 2 years, and the total number of issued shares of the Company is gradually increased and the increase ratio is low, and the possible dilution ratio to the original shareholders' shares is gradually diluted, so the dilution effect is still limited.	

Note 1: On October 5, 2020, the board of directors resolved to withdraw and cancel the issued employee stock options of 6,000 thousand units with the consent of the employee stock options holders and replace them with the newly issued "2020 Employee Stock Options Issuance and Stock Purchase Plan".

Note 2: It is the subscription price upon calculation and adjustment in accordance with the issuance regulations.

Note 3: The ratios of the number of shares subscribed and the number of shares outstanding to the total number of shares issued was calculated based on the total number of 199,624,993 shares issued as of April 2, 2023.

Note 4: On August 19, 2022, the board of directors resolved to withdraw and cancel 6,000,000 units of employee stock option certificates issued with the consent of the holders of employee stock option certificates, and to issue a new "FY2022 Employee Stock Option Plan" to replace.

**4.5.2 The names, acquisitions, and subscriptions of the managerial officers who have obtained the employee stock options and the top ten employees who have obtained the stock options evidence up to the publication date of the annual report:**

Unit: NT\$

Title		Name	Number of options shares	Ratio (%) of subscription number obtained in total issued shares (Note 4)	Options exercised				Options unexercised			
					Subscription Number	Subscription Price (Note 1) (Note2) (Note 3)	Subscription Amount	Ratio (%) of number of shares subscribed in total issued shares (Note4)	Subscription Number	Subscription Price (Note 1) (Note 2) (Note 3)	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares (Note 4)
Manager	CEO	Khein Seng Pua	2,666,000	1.34	645,500	227.7 227.7 284.4	151,473,500	0.32	2,020,000	227.7 227.7 284.4	0	0.00
	President	Chee Kong Aw Yong										
	Vice President	Wee Kuan Gan										
	Vice President	Chung Hsun Ma										
	Vice President (Note 5)	Kuo Yi Cheng										
	Vice Technical President	Chih Jen Hsu										
	Senior Special Assistant and Chief Operating Officer	Zhi Chyang Yu										
	Division Chief	Pao Feng Chen										
Outgoing Manager	Senior Division Chief (Note 7)	Shu Hui Tsai	Resigned, not need to disclosed.									
	Senior Division Chief (Note 8)	Huei Chen Tsay										
	Senior Division Chief (Note 8)	Shu Hua Chiu										
	Division Chief (Note 8)	Li Fu Huang										
	Division Chief (Note 8)	Hsiu Chin Liu										
Employee	Senior Division Chief	Shu Hua Chiu	941,000	0.47	273,500	227.7 227.7 284.4	63,535,200	0.14	667,500	227.7 227.7 284.4	0	0.00
	Senior Division Chief	Huei Chen Tsay										
	Division chief	Zhi Ming Chen										
	Division chief	Zhi Gang Ye										
	Division chief	Ming Ren Liang										
	Deputy Director	Qing Cong Chen										
	Deputy Director	Wen Lung Cheng										
	Deputy Director	Chang Guang Lin										
	Deputy Director	Jiang Han Xu										
	Deputy Director	Chia-Pin Su										
	Technical Deputy Director	Wei Yung Chen										
	Manager	Sheng Wen Chen										
	Manager	Jen Chu Wu										

Note 1: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2019". The second issuance date of employee stock option was October 5, 2020, with the original issuance price at NT\$262.00, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$227.7, and the issued number of shares as 2,000,000.

Note 2: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2020". The first issuance date of employee stock option was October 5, 2020, with the original issuance price at NT\$262.00, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$227.7, and the issued number of shares as 6,000,000.

Note 3: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2022". The first issuance date of employee stock option was September 7, 2022, with the original issuance price at NT\$293.50, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$284.4, and the issued number of shares as 6,000,000.

Note 4: Number of options shares, Options exercised/ Options unexercised Ratio (%) of number of shares subscribed in total issued shares is based on the total number of 199,624,993 shares outstanding as of April 2, 2023.

Note 5: Division Chief Kuo Yi Cheng was dismissed on July 1, 2021, Kuo Yi Cheng took office as vice president on March 1, 2022.

Note 7: Senior Division Chief Shu Hui Tsai was dismissed on February 1, 2022.

Note 8: Senior Division Chief Huei Chen Tsay, Senior Division Chief Shu Hua Chiu, Division Chief Li Fu Huang, Division Chief Hsiu Chin Liu were dismissed on September 1, 2022.

**4.6 Issuance of New Restricted Employee Shares: In 2020 and as of the date of publication of the annual report, there is no issuance of new restricted employee shares.**

**4.6.1 For all new restricted employee shares for which the vesting conditions have not yet been met for the full number of shares, the annual report shall disclose the status up to the date of publication of the annual report and the effect on shareholders' equity: N/A.**

**4.6.2 Names and acquisition status of managerial officers who have acquired new restricted employee shares and of employees who rank among the top ten in the number of new restricted employee shares acquired, cumulative to the date of publication of the prospectus: N/A.**

**4.7 Status of Issuance of New Shares in Connection with Mergers and Acquisitions: In 2022 and as of the date of publication of the annual report, there is no issuance of new shares by M&A of shares of other companies.**

#### **4.8 Finance Plans and Implementation:**

Finance plans and implementation of the Company's the first domestic unsecured convertible corporate bonds

##### **4.8.1 Content:**

1. Document approval number of the competent authority: Official Letter No.1100356577 from the Financial Supervisory Commission (FSC) dated September 8, 2021.
2. Issue class: The first domestic unsecured convertible corporate bonds.
3. Issue amount: The total number of issued bonds is capped at 35,000, and the face value of each bond is NT\$100,000 only, which is issued at 100.5% of the nominal value. The total issue amount is capped at NT\$3,517,500 thousands and the coupon rate is 0%.
4. Planned projects and scheduled fund utilization progress

Unit: NT\$ thousand

Unit: RMB thousands										
Planned Project	Content	Scheduled Completion Date	Total Funds Required	Scheduled Fund Utilization Progress						
				Paid Amount in 2020 and the First Half of 2021	2021		2022			
					Q3	Q4	Q1	Q2	Q3	Q4
Acquisition of property, plant and equipment	Land acquisition	2021 Q4	607,864	60,786	91,180	455,898	-	-	-	-
	Phase V Plant & Office Building and Parking Tower Project	2022 Q2	2,401,689	1,437,000	375,500	330,494	211,248	47,447	-	-

Planned Project	Content	Scheduled Completion Date	Total Funds Required	Scheduled Fund Utilization Progress						
				Paid Amount in 2020 and the First Half of 2021	2021		2022			
					Q3	Q4	Q1	Q2	Q3	Q4
	Acquisition of R & D equipment	2022 Q4	417,822	-	-	178,430	117,973	81,882	21,873	17,664
	Repletion of working capital	2021 Q4	2,469,091	-	-	2,469,091	-	-	-	-
Total			5,896,466	1,497,786	466,680	3,433,913	329,221	129,329	21,873	17,664

## 5. Anticipated possible benefits

### (1) Acquisition of property, plant and equipment

#### A. Land acquisition

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$455,898 thousands will be used to cover the balance for land acquisition. To meet the various space requirements for future growth in operation scale, the Company acquired the land at No.620, Section 6, Zhonghua Road, Hsingchu City from Tyntek Corporation, with an area of approximate 4,675.88 square meters, reserved for future operation expansion for the purpose of building plants, employee parking lots or meeting other space planning needs. The land acquired by the Company this time is adjacent to the Company's Zhunan Headquarters in Kuan Yuan Science and Technology Park, Zhunan Town, Miaoli County. It only takes about 5 minutes to drive from one to the other, which is beneficial to the Company's future operation and management, in addition, based on the monthly rental price on market of about NT\$700 per square meter for the plant & office building adjacent to the Company's Zhunan Headquarters, it's estimated that the annual cost of renting factory & office building can be saved by about NT\$ 39,277 thousand in the future.

#### B. Phase V Plant & Office Building and Parking Tower Project

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$174,689 thousands will be used to finance the renovation of the new construction in Phase V Plant & Office Building and Auxiliary Handling and Parking Space. The Company's Zhunan Headquarters is located in Zhunan Town, Miaoli County, and its own workshops at No. 1, No.1-1, No.1-2 and No.1-3 of Qunyi Road are used as offices, R & D, experiment and various operation spaces, with a total usable floor area of approximate 20,331 square meters, including an office floor area of approximate 4,094 square meters and a total of approximate 2,299 office seats. In response to the growing operation scale and R & D needs, the Company plans to expand manpower on continuous basis. It is estimated that the number of employees in the Zhunan Headquarters will

reach about 3,030 by the end of 2022. However, from the perspective of the Company's existing office space, the office space is obviously insufficient to accommodate the employees, and in order to maintain the flexibility of space allocation, Phase V Plant & Office Building and Auxiliary Handling and Parking Space is built on the self-owned land adjacent to the Company's Zhunan Headquarters and located at Kuan Yuan Section, Zhunan Town, Miaoli County for future use and to facilitate the overall use as the operating space by the Company in response to operation needs. The company plans to build a new building with a total floor area of about 13,405 square meters and plans to add 1,278 parking spaces. Based on the monthly rental price on market of about NT\$700 per square meter for the surrounding plant & office building and the monthly rental price on each existing parking space of about NT\$1,500, it's estimated that the rent cost on leasing plant & office spaces and parking lot can be saved by about NT\$135,606 thousands. In addition, deducting the related depreciation expenses of the Company's construction of Phase V Plant & Office Building and Auxiliary Handling and Parking Space by the expected annual rental savings, it is expected to contribute approximate NT\$87,572 thousands of benefits each year in the future.

#### C. Acquisition of R&D equipment

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$417,822 thousands will be used to purchase the test equipment, etc. necessary during R & D to meet the Company's needs for product research and development planning, expansion of research and development personnel and market expansion. The Company is an internationally renowned manufacturer in the integrated design of flash memory control chips and their application products. In response to the increasing demand for ultra-high-speed data access resulted from the vigorous development of technology applications such as data centers, artificial intelligence and the Internet of Things, and the development of 5G and automotive electronics applications, as well as the upgrading of various e-sports software and game consoles, it is necessary to purchase R & D-related equipment to increase R&D capacity on continuous basis and accelerate the development of new technologies and products to provide diversified and high-added value products for the purpose of meeting the needs of the sales customers, thereby consolidating the market standing.

#### (2) Repletion of working capital

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$2,469,091 thousands will be used to replenish the working capital to meet the increased demand for working capital necessary to cover various operating expenses such as material purchase cost, product R & D investment, expenses related to market development and expansion, and

personnel growth resulted from future growth of operating scale. In addition to reducing the Company's dependence on banks, increasing the long-term stable working capital and the flexibility of capital utilization, if based on the current interest rate for the short-term borrowings of 0.71%, it is estimated that the interest expense in 2021 can be saved by NT\$4,383 thousands (NT\$2,469,091 thousands \*0.71%\*3/12), and the interest expense can be saved NT\$17,531 thousands (NT\$2,469,091 thousands \*0.71%) each year subsequently, and it can also moderately relieve the financial burden on the Company, improve the financial structure, and increase long-term competitiveness.

#### 4.8.2 Implementation

Unit: NT\$ thousand

Planned Project	Execution		As of December 31, 2022
Land acquisition	Amount paid	Scheduled amount	607,864
		Actual amount	607,864
	Progress (%)	Scheduled amount	100.00
		Actual amount	100.00
Phase V Plant & Office Building and Parking Tower Project	Amount paid	Scheduled amount	2,401,689
		Actual amount	2,401,689
	Progress (%)	Scheduled amount	100.00
		Actual amount	100.00
Acquisition of R & D equipment	Amount paid	Scheduled amount	417,822
		Actual amount	417,822
	Progress (%)	Scheduled amount	100.00
		Actual amount	100.00
Repletion of working capital	Amount paid	Scheduled amount	2,469,091
		Actual amount	2,469,091
	Progress (%)	Scheduled amount	100.00
		Actual amount	100.00
Total	Amount paid	Scheduled amount	5,896,466
		Actual amount	5,896,466
	Progress (%)	Scheduled amount	100.00
		Actual amount	100.00

Cause for progress ahead of or behind schedule and plan for improvement:

##### 1. Land acquisition

The Company completed the payment on land acquisition in 2021, resulting in the progress in plan execution of 100.00%. Therefore, the land accusation plan with the first domestic unsecured convertible corporate bonds has been completely executed.

##### 2. Phase V Plant & Office Building and Parking Tower Project

The Company completed the payment on Phase V Plant & Office Building and Parking Tower Project in 2022, resulting in the progress in plan execution of 100.00%. Therefore,

the Phase V Plant & Office Building and Parking Tower Project plan with the first domestic unsecured convertible corporate bonds has been completely executed.

### 3. Acquisition of R & D equipment

The Company completed the payment on acquisition of R & D equipment in 2022, resulting in the progress in plan execution of 100.00%. Therefore, the acquisition of R & D equipment plan with the first domestic unsecured convertible corporate bonds has been completely executed.

### 4. Repletion of working capital

As of the end of 2021, the Company has completed execution of the original plan for fund utilization progress

#### 4.8.3 Assessment of the execution benefits

The Company began to issue the first domestic unsecured convertible corporate bonds in December 2021 to raise funds, of which NT\$455,898 thousands would be used to cover the balance for land acquisition, NT\$174,689 thousands would be used to funds the renovation of Phase V Plant & Office Building and Parking Tower Project, NT\$417,822 thousands would be used to purchase R & D equipment and NT\$2,469,091 thousands would be used to replenish the working capital. Among them, the planned project of using NT\$455,898 thousands to cover the balance for land acquisition and NT\$2,469,091 thousands to replenish the working capital was completed in December 2021. The above planned projects were fully implemented in December 2022. Important financial items as of December 31, 2022 are as follows:

Unit: NT\$ thousand

Financial item	2021 (before execution)	2022 (after execution)	Increase (Decrease)
Current assets	37,326,925	45,894,585	8,567,660
Current liabilities	11,762,682	17,599,091	5,836,409
Total liabilities	12,408,485	22,358,014	9,949,529
Total equity	35,155,467	37,631,822	2,476,355
Interest expenses	5,132	35,783	30,651
Operating revenue	48,496,522	60,256,142	11,759,620
Earnings per share (NT\$)	44.14	27.71	(16.43)
Ratio of long-term capital to property, plant, and equipment (%)	770.49	557.94	(212.55)





# Chapter 5

## Operation Overview

## Chapter 5 Operation Overview

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### 5.1.1.1 Main areas of business operations

The Company mainly focuses on the controller of flash memory and the design of the peripheral devices integration, descriptions are as follows:

- (1) The design, manufacture and sales of the controllers and modules of SSD.
- (2) The controllers and modules of embedded Flash used on portable application like smartphone and tablet, including eMMC, UFS.
- (3) The design, manufacture and sales of the controllers and modules of USB.
- (4) The design, manufacture and sales of the controllers and modules of memory card (SD/CF).

##### 5.1.1.2 Proportion of main products in operating revenue

Unit: NT\$ thousand, %

Product item	2022	
	Net operating revenue	Proportion of operating revenue (%)
Flash memory and module products	42,174,860	69.99
Integrated circuit	2,050,539	3.40
Controllers	13,907,161	23.08
Others	2,123,582	3.53
Total	60,256,142	100.00

Note: Adopting IFRS (consolidated statements).

##### 5.1.1.3 Current Major Product (Service)

- (1) The controllers and modules of SSD.
- (2) The embedded controller used on portable application, including eMMC, UFS.
- (3) The controllers and modules of USB.
- (4) The memory card controllers and memory card: SD card, microSD card, etc.

##### 5.1.1.4 New products (services) to be developed

- (1) 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.
- (2) 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.

- (3) 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.
- (4) 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.
- (5) 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.
- (6) Continue to launch Redriver/Retimer ICs for PCs, servers, and vehicle systems to provide the best signal stabilization solution for high-speed transmission platforms.

## **5.1.2 Industry Overview**

### **5.1.2.1 Development status of the industry**

The Company focuses on the controller of flash memory and the design of the peripheral device's integration. The current status and development of flash memory and NAND Flash products in this industry are illustrated below:

#### **(1) Current status and development of flash memory in this industry**

NAND Flash Memory is the most suitable storage device for large data storage and its cost per bit is the cheapest of all nonvolatile storage devices, so it can universally be used in portable products to store data, such as USB, memory card and related application, such as smartphone, laptop/desktop computer and server etc.. NAND flash solution is transferring from 2D MLC to 3D TLC gradually. The 3D TLC NAND is advance on the cheap cost, but it relies on a stronger controller to help its operational efficiency and ensure data reliability. With the supporting of new controllers, 3D TLC NAND have used in embedded memories and SSDs.

With the prosperity of online commerce and services, the market's demand for data storage is increasing and it requires a faster and more reliable solution of data streaming, which makes the penetration rate of SSD and eMMC application on computers and smartphones surge in recent years and even enter into the large data processing servers and cloud applications. In addition, the capacity in single production of memory cards and USB is rapidly increasing while the audio and video information technology improved capacity of the single file, and the requirements for reading speed and stability have also increased. In summary, there are multiple long-term niches and advantages for the NAND Flash industry development.

As the NAND Flash process technology and applications are evolving rapidly, the technology of NAND Flash is more and more difficult because more bits for error correction are needed and the integration with controllers is critical. Most of the technologies for controllers, such as wear leveling and bad block management, are to extend the life cycle of NAND Flash.

Phison Electronics Corporation has been dedicating to the research and development of NAND Flash controllers and its related applications for over 20 years. Phison has accumulated solid managing technologies and knowledge of NAND Flash, obtained about 2,000 patents related to NAND Flash technologies, and created a unique operating model. In the line with the concept and culture of "sharing, integrity, efficiency, innovation," all employees of the Company will work together to make continuous progress to keep the Phison Electronics in the leading position of the market.

(2) Current industrial status and development in NAND FLASH application

NAND Flash memory has been the main-stream storage device and many new applications have been proposed. The Company has developed many solutions in different areas.

**Controller for USB 3.2 Drives and Products**

USB 3.2 is designed for a fast transferring of audio and video data. It is 10-40 times faster than USB 2.0 and has the advantages of backward compatibility, better power management, and larger power capacity. The theoretic speed of USB 2.0 is 480Mb per second and the theoretic speed of USB 3.2 is greatly promoted to 5-20Gb per second. Therefore, for those USB 2.0 products, the maximal actual transferring speed is just 28MB ~ 30MB per second. If these products adopt USB 3.2, the transferring speed can be greatly promoted to over 1,800MB per second, which saves a lot of data transferring time. The Company is the first one to propose the USB 3.2 controllers for 4 channels and 8 channels alternating transferring, which improves the power consumption and the heat accumulation, as well as decreasing the PCB size and lowering the total cost. We have developed the USB 3.2 mobile drive with a reading speed of 400 MB per second and a writing speed of 300 MB per second. Its data accessing performance is almost the same with that of SSD and it can accommodate more than 1TB of NAND Flash in a mobile drive. We also continue to develop USB 3.2 controllers and mobile drives with a high performance/price ratio to provide more customers with convenience and performance of USB 3.2.

### **Controller Chips and Products for SD Cards**

SD (Secure Digital) memory card (including microSD card) is the most used storage device in high-resolution DSLR, sports and UAV digital cameras, dashboard cameras, printers, smartphones, and tablets. In recent years, the need for high capacity cards has been increased. TLC with features of low cost and high capacity is widely used in consumer electronics. Because feature phones are gradually replaced by smartphones, high capacity microSD cards have become more and more popular. Phison Electronics Corporation makes efforts to develop new features, support new-generation SD 8.0 specification (SD Express), provide high capacity cards with better writing/reading performance. We also enter the niche market to provide products with higher value-added to satisfy the needs of premium memory cards. In addition, for the DVR and UAV cameras that need an uninterrupted recording feature, the Company has developed the special and customer-made SD/microSD solution. These products have been verified by the customers and been stably produced.

### **eMMC**

Controllers for eMMC flash memory is developed for the memory needs of smartphones. Because the smartphone market is expanding and needs higher performance, the requirements for controllers are higher and higher, such as high-speed transferring, simultaneous reading and writing, background operation, security, and power-saving. International NAND Flash suppliers, such as Samsung, Kioxia, SanDisk, SK Hynix, and Micron, all make their efforts to develop eMMC. It is a new trend and the growth in the future is enormous because many products need it, such as smartphones, tablets, set-top boxes, and smartTVs. This built-in flash memory does not only satisfy the need of smartphones, but also has higher reliability than other storage cards. Phison Electronics Corporation has been working in this area for a long time. The NAND Flash management technology and our rich experience are the most important basis for developing this product. In addition, Phison Electronics Corporation has sufficient technology patents to lead in the competition and provide competitive products. We have developed the controllers with the specification of eMMC 5.x built-in flash memory, which is established by JEDEC. These products have been adopted by international suppliers and the production of these products is very stable. We also make efforts to develop the next generation high-speed eMMC.

## **UFS**

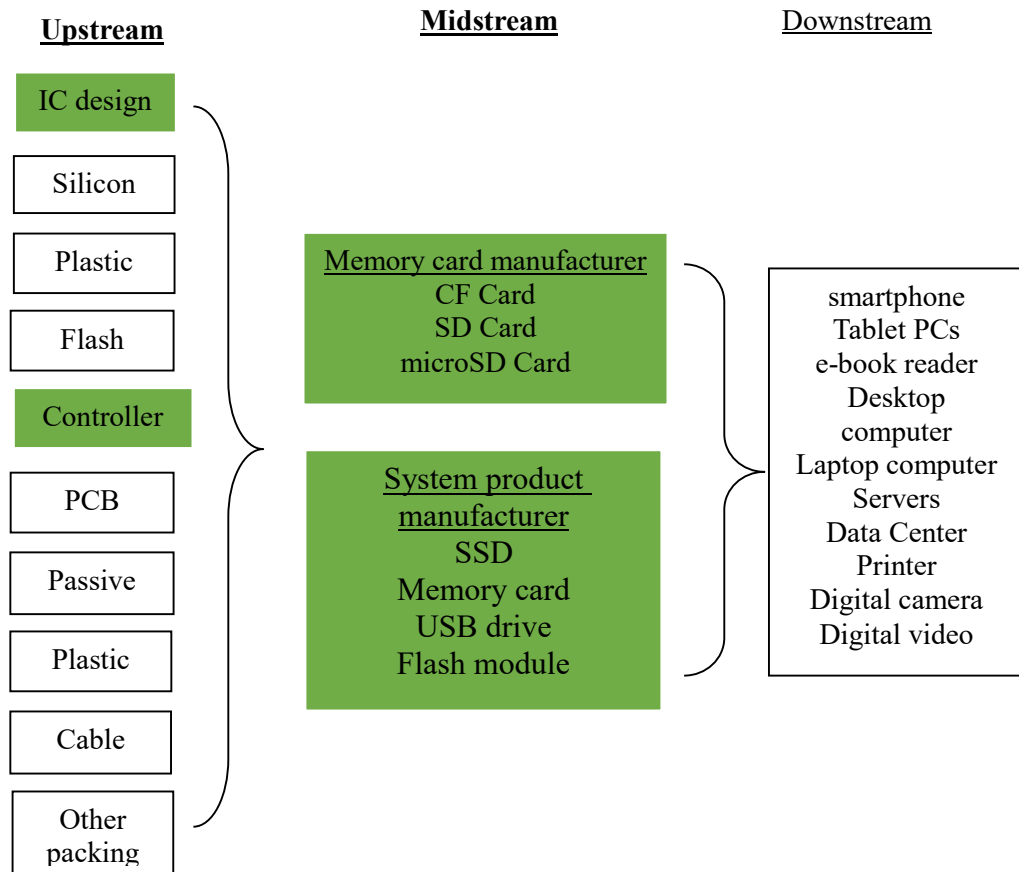
With the improvement of smartphone functions, the processors are more advanced, more applications are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. eMMC is limited due to the electrical specification of the transferring interface, so the data transferring speed is very difficult to be enhanced. Therefore, the industry has established the new interface specification UFS (Universal Flash Storage). Currently, the data transferring speed of UFS3.2 is at least six times faster than that of eMMC. In the future, higher speed will be developed. In addition, UFS also includes the widely-adopted SCSI structure and supports multi-thread data access, which makes good use of the memory features. The Company has completed the verification of prototype products and will continue to put resources into the development of UFS controllers and integration solutions. In addition to expanding the market share of eMMC, the Company will also increase the penetration rate of storage media for premium handheld devices.

## **SSD**

All of traditional IT and electronic products used hard disks as storage media in the past, but the software and hardware in the computer industry have been developed rapidly. Currently, the speed of hard disks cannot catch up with the speed of other software and hardware, so SSD was developed to fix this problem. Unlike the magnetic disks used as the storage media in traditional hard disks, SSD uses flash memory as storage media and have the advantages of writing/reading speed, smooth use, power consumption, noise, weight, size, etc. After cloud technology and tablets are more and more popular, the need for SSD becomes more urgent. Hence, Phison Electronics Corporation has dedicated itself to develop new controllers for flash memory and system products. Currently, we have all kinds of SSD chips for SATA and PCIE interfaces and comprehensive solutions to satisfy the SSD needs of the retailers, PC OEM, and data centers. We will continue to design innovative and advanced products to promote the performance of SSDs and lower the unit cost. Phison Electronics Corporation will create greater values for SSD products.

### **5.1.2.2 Relationship of Upstream, Midstream and Downstream in this Industry**

The Company focuses on development and sales of controllers for flash memory and flash system products, such as flash drives and memory cards. We are in the upstream and mid-stream of this industry. The upstream, midstream and downstream linkages of the relevant industries are shown below:



### 5.1.2.3 Product development trends and competition

#### (1) Product development trends

##### A. Controller:

a. SSD, UFS, eMMC, Controllers: The design is aimed to integrate multiple functions, larger memory, faster transfer rate, random access speed, access stability, longer life cycles, supporting all specifications and transferring interfaces, low voltage, low cost, and single chip.

b. Flash memory and USB for Controllers: the design is toward faster speed, access stability, supporting all flash memory specifications of major manufacturers, supporting the trend of high compatibility, smaller size, low voltage, low cost, and single chip of various 3C products.

B. NAND Storage module products: the design is toward larger memory, faster speed, small size, data security and software platform integration.

C. To sum up, the Company will focus on the application of flash storage to develop products of single function and products of multiple function integration. We will keep inputting our innovation on the new products.

## (2) Competitions

The trend of NAND is toward built-in application and the technology required in this trend is getting higher and higher. Most of the business opportunities and core technology are in the hands of big NAND Flash suppliers. The controller suppliers in Taiwan are holding fewer and fewer advantages, which leads to continuous market integration or individual suppliers' transformation. If the participants cannot upgrade their technology from USB2.0 mobile drives and SD card controllers to SSD, built-in memory, eMMC, and USB3.0 controllers, they have been kicked out of this industry. Phison Electronics Corporation invested lots of R&D resources to upgrade all core technologies and enter the areas of eMMC, UFS and SSD with advanced technical skills. We have done great business in retailers and PC OEM market. By strategic alliance, our sales performance is getting better and better. Although there are many IC companies trying to develop built-in controllers to join this competition, the most critical factor is the close relationship with the international big NAND Flash suppliers to participate in the supply chain. In the future, Phison Electronics Corporation will continue to develop products, establish a strategic alliance, vertically integrate the industry and build high/middle/low levels of SSD/eMMC/UFS product line to maintain our competitiveness.

The core technology of Flash products is the controllers and the integration of their firmware and software. Firmware technology is the key to the rapid development of all kinds of flash memory supporting all major specifications and excellent differentiation and customized products owning high compatibility, which benefit the competitiveness in the market. The Company has great capability of designing controllers for flash memory and firmware, as well as the capability of integrating the technologies for system products. We can provide all storage technology solutions from controller ICs to memory modules and premium competitiveness, which benefit our future growth in the market.

### **5.1.3 Technology and R&D Overview**

#### **5.1.3.1 Technical level and R&D overview of the business activities**

The Company mainly focuses on the R&D, design, manufacturing, and sales of controllers for flash memory, USB mobile drives, flash SD memory cards, SSDs, eMMC and UFS built-in modules, etc. The core technology of these products is the controllers and the integration of their firmware and software. The Company has great capability of designing controllers for flash memory and firmware, as well as the capability of integrating the technologies for system products. We can provide all things from ICs to technology solutions and have unique and premium competitiveness, which benefits our future growth in the market.



#### 5.1.3.2 R&D of the Business

The Company has an excellent R&D team of young, hard-working, creative, and experienced members. They have the experience of developing flash products and focuses on the controllers for flash memory and peripheral systems. We are the leader in the development of controllers for flash memory and provide comprehensive technology solutions. The R&D team is committed to becoming one of the world's top three designers and suppliers of flash memory controllers and peripheral systems.

#### 5.1.3.3 R&D Expenditures of the Most Recent Year and as of the Publication Date of Annual Report

Unit: NT\$ thousand, %

Item	Year	2022
R&D expenses(A)		8,130,501
Net operating revenue(B)		60,256,142
Percentage of R&D expenditures to net operating revenue(A/B)		13.49

Note: Adopting IFRS (consolidated statements).

#### 5.1.3.4 Successful Technology or Products

##### (1) Successful R&D Projects

Year	R&D results
2021	<ul style="list-style-type: none"> <li>➤ PS3117-S17T SATA III SSD controller is a DRAM_less version with a maximum support capacity of 4TB, which will meet the upgrade requirements of the PC DIY market.</li> <li>➤ PS5015-E15T is a PCIe Gen3 DRAM_less SSD controller with a maximum speed of 3300MB/s. The design of DRAM_less will also bring consumers a cost-effective experience.</li> <li>➤ PS5021-E21T PCIe Gen4 SSD controller, with a maximum support capacity of 4TB and a performance of 4800MB/s, is a product that meets the mainstream PC and mobile device markets.</li> <li>➤ The PS5017 SD card controller (complies with SD Express specification) not only meets the high-definition resolution of the pluggable storage application environment, but also brings a better experience for content creators.</li> <li>➤ The new-generation eMMC PS8232 controller is a low-power design, bringing an excellent power-saving experience to mobile devices and embedded systems.</li> <li>➤ The new-generation UFS 2.2/3.1 controller equipped with 12nm process not only supports the latest NAND technology, but also provides new ultra-high-speed performance for high-end portable devices to meet the trend of 5G wireless transmission.</li> <li>➤ Developed a high-capacity USB3.2 Gen2x2 PS2251-18 controller that supports high-speed random write to meet the massive data transmission needs of the high-resolution audio and video market such as content creators.</li> <li>➤ Launched the FIPS-compliant USB controller PS2251-15 to meet the encryption demand market driven by digital transformation.</li> <li>➤ For more advanced process, developed next-generation PCIe PHY, and continue to deploy IP licensing field.</li> <li>➤ Developed a new generation of error correction modules to support high-layer 3D TLC/QLC and next-generation PLC NAND flash memory.</li> <li>➤ Developed smaller controller solutions with higher capacity support and more power efficiency, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, as well as meet the high-speed storage needs of mobile devices.</li> <li>➤ Developed controllers that meet automotive specifications and passed various automotive regulatory certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the needs of the automotive electronics market.</li> </ul>

Year	R&D results
2022	<ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ For more advanced manufacturing processes, develop next-generation PCIe PHY, and continue to lay out the field of IP authorization.</li> <li>➤ Developed a new generation of error correction modules to support high-level 3D TLC/QLC and next-generation PLC flash memory.</li> <li>➤ 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.</li> <li>➤ 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.</li> </ul>

(2) Technology Patents of the Company:

The Company makes great efforts to develop the technologies for the flash memory application and has been successful in some critical technologies. We have 207 patent applications pending, with 1,912 patents approved, in various countries as of March 31, 2023.

#### **5.1.4 Long-term and Short-term Business Development Plans**

##### **5.1.4.1 Short-term Business Development Plans**

(1) Marketing/Sales Strategy

- A. We will leverage strategic alliances to collaborate with large corporations in the industry and expand our market share. These measures could promote our technology status and market share of the products as well as create bigger market demand. In parallel, we are deepening cooperation with our local strategic agency partners to leverage our strengths and deepen our local presence.
- B. We will establish different sales strategies based on the customer types and global market to satisfy market demands, strengthen customer stability, and promote global sales.
- C. We will actively explore the markets in China, emerging markets (EX: India, Russia, Southeast Asia, etc.) and European and American markets to expand our market share and accommodate various customers.

(2) R&D

- A. We will continue to improve the functions of the controllers for flash memory to support diverse specifications and integration. The Company's R&D is moving toward high performance, low power consumption, long life cycles, high capacity, and high compatibility.
- B. The products will be more diversified and their functions and specifications will be improved to meet customers' needs.
- C. The R&D will be toward data storage, embedded and data security to develop new products with single function or function integration.

(3) Production

- A. We will continuously improve the management of the balanced marketing and production and keep expanding outsourcing plants and improve their management.
- B. We will continuously lower the production cost and search for material of good quality and lower price. We will also improve the OEM production capability and promote the product yield, which can cut down the cost and maximize profit.
- C. We will improve inventory management to make use of them as much as possible.

- D. We will take the measures of strategic alliance to establish the marketing and production strategies in different regions and markets to effectively lower the production and marketing cost and serve the local customers.
  - E. We will continuously improve the collaboration with the material suppliers to better manage material inventory, production and marketing.
- (4) Management and Finance
- A. We will follow the regulations of self-management and corporate governance. By trading the capital market, we will promote the company reputation and recruit excellent talents.
  - B. We will keep a good relationship with banks, improve the credibility check to ensure creditor's rights, and check the receipt and payment on a regular basis to improve financial status.
  - C. Financial structure improvement: We will continue to lower the operating cost, improve capital management, and hedge exchange rate risks. These measures can secure the financial operations and management to maximize the profit of the Company.
  - D. We will make good use of the TIPTOP GP ERP System, AgentFlow system etc to integrate resources, promote business efficiency and improve operation processes.
  - E. We will implement human management and robust systems to enhance the internal cohesion. We will improve the educational trainings to promote work efficiency and human resource.
  - F. Effective management of human resource and operating process: We will continue to improve the internal operation processes to promote work efficiency, work quality and human resource.

#### 5.1.4.2 Long-term and Mid-term Business Development Plans

- (1) Marketing policy: We will continue to improve the training of salespeople, collect comprehensive market information, establish the customer service network, establish agent networks, expand the global market, and enter big economies all over the world.
- (2) R&D policy: We actively recruit outstanding R&D talents and cultivate excellent R&D teams through the talents of our R&D executives in order to continue to the technologies of the new generation, develop new product lines based on the needs of the market, develop products with high additional value, promote the variety and competitiveness of our products, maintain innovation capability and focus on innovation to maintain our leadership in the market of flash memory application.
- (3) Production policy: We will keep good relationships with the current material suppliers and foundries and seek new suppliers to reduce the risks of centralized manufacturing of Flash Memory and wafers, and strengthen the cooperation with

these OEMs. Also, we will continue to use the advanced manufacturing process to cut down costs while improving the production and sales management and quality control procedures to enhance our competitiveness.

- (4) Business management policy: By recruiting new personnel, creating more products, expanding domestic and overseas market share, collaborating with international strategic partners, and integrating resources, By upholding the spirit of sustainable and practical operation, we will continue to boost our business and become the international leader of flash memory applications.

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### 5.2.2.1 Main Sales (Service) Region:

Unit: NT\$ thousand

Area \ Year	2021	2022
	Operating revenue	Operating revenue
Asia	47,621,861	47,089,940
America	11,094,866	10,588,924
Europe	3,694,956	2,474,827
Australia	144,146	102,224
Others	1,363	227
Total	62,557,192	60,256,142

#### 5.2.2.2 Market Share and Demand/Supply/Growth in the Future

(1) Market Share: Not applicable because there is no clear statistical data.

(2) Demand/Supply/Growth in the Future

##### A. Supply

The application of flash memory becomes broader and broader, and market demand is growing fast. Therefore, manufacturers without advanced technology will lose their competitiveness. The major suppliers of controller chips are Phison, Marvel, Silicon Motion, Solid State System, Alcor, ITE Tech, ASolid, Jmicron, etc. The manufacturers of Nand flash application products are Sandisk, Kingston and Micron, etc. (overseas) and Phison, Transcend, Apacer, Adata, Silicon Power, etc. (domestic).

##### B. Demand

The application of Nand Flash is expanding as the memory chip's price is getting reasonable and multimedia and portable products become commonly used, which leads to the growing products applied with Nand Flash. Besides the current digital and 3C products adopting USBs and SD Cards, smartphones with built-in memory are also increasing. Also, SSDs with a higher reading/writing speed are applied in PCs, notebooks, and large data centers, gradually replacing hard disks. In addition, the recent emergence of automotive electronic systems, factory automation, embedded system applications, and even gaming and server markets continue to lead to NAND storage related products. Thus, Nand flash is the most commonly applied and the most stable storage media driving increasing demands in NAND controllers with stable growth in the whole NAND storage market.

### C. Growth

With the gradual realization of global 5G infrastructure and product applications, high-speed access to large amounts of data in the cloud, big data, AI and the Internet of Things and other technology applications have become more prosperous. Coupled with the increasing demand for ultra-high-speed data access due to the upgrade of various gaming software and game console specifications, it is expected that the penetration rate of ultra-high-speed solid-state drives (SSD) will continue to increase and maintain rapid growth. The company has launched different NAND Flash controllers for different application markets, including controllers that comply with PCIe Gen 3x4 NVMe NVMe specifications in mainstream market, and the PCIe Gen4x4 NVMe SSD controllers that lead the industry, to provide the most complete storage solutions with PCIe SSD controllers on the market, in the high-end application/enterprise-level SSD application market, the company's customized enterprise-level SSD solution FX series and the world's highest-capacity enterprise-level QLC SSD storage solution have gradually been recognized by the market, in addition, Phison's research and development center located in Colorado, USA has started to present its development performance gradually. It works effectively with partners to develop validated products and serves Tier-1 enterprise server vendors nearby.

In terms of embedded applications, the company, as one of the few industry leaders in the world that provides eMMC and UFS controllers in its entirety, is committed to lower power consumption and lower heat generation technology, and continues to promote BGA SSD to PCIe NVMe specifications to provide embedded applications the best storage choice, and push mobile storage devices into a new generation of higher speed and more energy-saving. The company takes the lead in launching new controllers that support UFS3.2, especially with Phison's own technology, including StrongECC™, Advance LDPC, CoProcessor™ and RAID architecture. It not only provides low power consumption, but also demonstrates excellent error correction capabilities and provides SSD-like performance.

In terms of SD memory cards, the company released the latest SD & microSD card controller that is compatible with SD7.0 specifications and implemented mass production of them. It has the absolute advantage of high-speed random access and provides up to 1TB data storage capacity. It is the industry's highest specification and is aimed at the high resolution application market.

For USB series products, the latest USB native NAND controller compliant with USB 3.2 specification from Phison is specialized in high-capacity mobile storage applications.



#### 5.2.2.3 Competitive Niche

##### (1) Professional, Young and Stable R&D Team to Develop New Technology and Products Rapidly

The R&D team of Phison Electronics Corporation has been in the industry of NAND Flash peripheral devices and been one of the pioneers in this area. Our R&D team is young, hard-working, creative, and fast. Since its establishment in November 2000, it has successfully developed controllers for many components, such as USB 3.0 NAND flash controllers, SD 7.0 (SD Express) controllers, eMMC 5.x controllers, UFS 3.x controllers, SATA SSD, PCIe Gen3/4 SSD controllers, and security USB mobile drive. In the future, we will continue to improve the training for R&D personnel, provide benefits to attract and keep the talents, and recruit new talents to promote experience inheritance and technology advancement, make our products more competitive, and create products with differentiation.

##### (2) Strong Shareholders and Strategic Alliance

There are only a few suppliers for NAND Flash, such as KIOXIA (former Toshiba Memory Corporation), controlling most of the market share. However, there are many specifications for small memory cards. Moreover, most of the NAND Flash peripheral products have patent protection. Hence, how to obtain enough NAND Flash memory material and how to obtain relevant patent authorization are critical issues to us.

Since the establishment, the Company made lots of efforts to develop advanced technology and new application areas. We have kept a good relationship with all Flash manufacturers and introduced strategic partner KIOXIA in 2002. KIOXIA has NAND Flash fabs, which can provide us with flash memory. KIOXIA is also the creator of Secure Digital and xD-Picture specifications and has a cross authorization of many small memory card specifications. Therefore, the partnership with big flash memory manufacturers helps us developing all kinds of flash memory controllers. The Company introduced strategic partners, Kingston Technology Corporation and Advantech Investment Inc., in 2014-2015 by private stock issuance. The Company participated in the private stock issuance of Apacer Technology Inc., which benefits us in obtaining stable source of flash material and expanding retailer channels. In addition, the Company established a strategic research and development center in Colorado, USA in 2020 for the Enterprise SSD market.

The Company will continue to establish a comprehensive development plan and long-term strategic alliance to integrate all resources and develop new product lines. These can expand our market share and provide the market with more products, as well as benefiting adjustment for the market change and creating competitiveness for us to sustain our business.

### (3) Competitive Advantages of Having Design and Retailer End

The Company has developed NAND Flash controllers and designed many products, such as SSDs, NAND flash application products. Most of the assembly and production process are outsourced to other partner companies. Application products are sold by the retailer channel in Taiwan or overseas retailer channels in Europe, America, Japan, etc. Other traditional IC design companies just develop chips and sell the products to the system assembly companies. Once more competitive companies join in this industry, there will be many risks, such as decreased gross profit and increased inventory. We are different from the assembly module companies, which can only make smaller profits. We stand at the two ends of design and sales with higher added values. Our business income is higher than that of IC design companies and our profit is higher than that of the assembly companies. Therefore, our controllers are sold to Tier-1 NAND vendors such as KIOXIA, Kingston, and Micron, and our system application NAND module products are also sold to major brand customers and system integrators in the U.S., Europe, and Japan by virtue of our complete mastery of control chip technology, which demonstrates our unique market competitiveness and high product technology capability by mastering the R&D technology and sales of both controllers and system applications.

#### 5.2.2.4 Advantages, Disadvantages and Responsive Strategy in the Long-term Development

##### (1) Advantages:

###### A. Comprehensive Fragmentation of Production in the Semiconductor Industry

Our country has a very comprehensive fragmentation of production in the semiconductor industry. Fabs, packaging plants, and testing plants have reached an economic scale and can provide professional services. These provide companies with controllers for flash memory with excellent support.

###### B. Rapid Growth of SSD Market

SSDs have an excellent feature of high performance, low power consumption, and low failure rate, and the price of flash memory in SSDs is greatly reduced because of the advanced manufacturing processes. Traditional hard disks have been replaced by SSDs in a great deal of personal and cloud storage devices. The Company has developed high-performance SSD controllers supporting the third-generation SATA and PCIe NVMe and has the critical technologies to develop new models with faster transferring speed and lower power consumption. These new products make SSDs with higher performance and lower cost. Because the SSD market is rapidly growing, the Company will rapidly satisfy the needs of the market, including consumer storage applications, embedded applications, gaming market, automotive electronics, mobile devices, and server systems, and provide the market with more products to ensure the leadership of the Company.

C. Development of smartphones Promotes Growth of Small Memory Cards

As the NAND Flash manufacturing processes advance, the unit price of flash memory is getting lower and lower, which brings down the price of small memory cards. In addition, the applications of flash memory have been expanded into many home appliances, not just consumer products, such as smartphones. It is expected that the market for small memory cards will be rapidly growing in the future.

D. The application of flash memory has been used in many products, including mobile drives, memory cards, cell phones and portable video, and audio devices. It has been further used in SSD products, eMMC of mobile devices, and car electronic systems. Its application is still growing and therefore promotes the flash memory product industry.

(2) Disadvantages and Responsive Strategy:

A. Rapid Growth and More Competitors

Responsive strategy: The Company has excellent technical design capability of NAND Flash controllers and firmware for faster product development, more added value of products, and function integration, which provide our customers with more diversified and comprehensive solutions. We will continue to enhance our R&D of technologies to keep our leadership in this industry and maximize our profit.

B. Flash Memory in Control of Big International Suppliers

Responsive strategy: We will keep a close partnership with big international flash memory suppliers (such as KIOXIA, Micron, Hynix, WD, etc.) and seek the opportunity of establishing strategic alliances. We will pay close attention to the specification change, market change and price change of flash memory to adjust our inventory accordingly and dedicate to optimize inventory management and maximize sales profit.

C. More Product Specifications

Responsive strategy: Since the specification of flash memory is established by big international suppliers and the specifications and interfaces of storage products are quite diverse, the Company has to pay close attention to the latest agreements of all kinds of specifications of flash memory cards and its storage applications and the development of the end markets. By speeding up the development of new technology and new products, adding more major products, and diversifying product functions, the Company can extend the product life cycles and eliminate the impacts resulting from specification changes and the disappointing product development in the end markets.

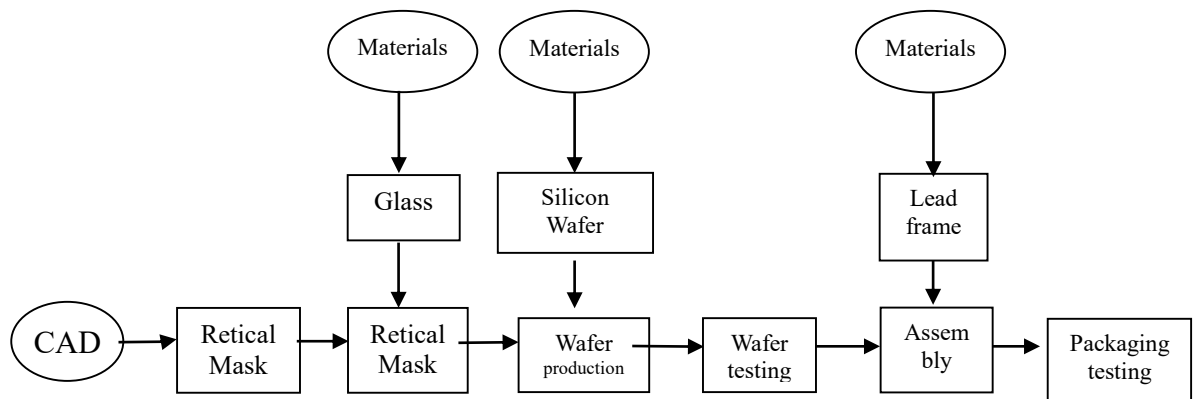
## 5.2.2 Important Uses of the Main Products and the Production Process

### 5.2.2.1 Key Applications of Main Products

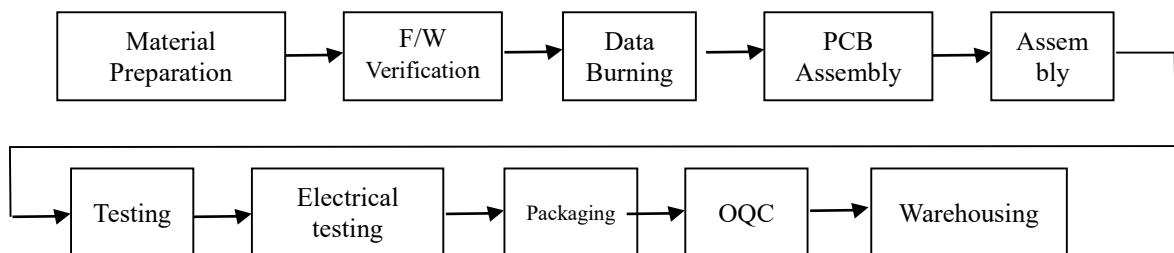
Product Category	Uses
Flash memory system products	These are the storage devices with flash memory (USB drive, flash memory card, SSD, and embedded memory). Since USB interfaces, cameras, cell phones, laptop computers, industrial automation system, automotive electronics, and cloud server become more and more popular, these products are convenient for fast data access.
Flash memory controller chips	These products are used as I/O interface of general system products, to control and integrate between the firmware instruction set and the flash memory applied with flash memory module product, enabling the system products and flash memory to translate instruction and transfer data.

### 5.2.2.2 Manufacturing Process

#### (1) Manufacturing Process of Controller IC



#### (2) Manufacturing Process of Flash Memory Reader



### 5.2.3 Supply of Primary Raw Materials

The Major materials of our products are flash memory, controller, PCB, case, connector and cable. The supply status is as follows:

Main material	MAJOR SUPPLIERS	Supply Status
Controllers	United Microelectronics Corporation, Taiwan Semiconductor Manufacturing Company (TSMC)	Normal
Flash memory	Kioxia, Micron, YMTC	Normal
Printed circuit boards	Taiwan Printed Circuit Board Techvest Co, Ltd., Tripod Technology Corporation, Cheng Mao Electronic Co., Ltd.	Normal
Connector, Case	IN POWER MINUTE CO., LTD., Wei Jeng Industrial Co., Ltd.	Normal

### 5.2.4 The name and proportion of the suppliers or customers who have occupied more than 10% of the total amount of purchase or operating revenue in any of the past two years and the reasons for the increase or decrease:

#### 5.2.4.1 The Suppliers who Have Occupied More Than 10% of the Total Amount of Purchase in Any of the Past Two Years

Unit: NT\$ thousand

2021				2022				As of March 31, 2023			
Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
Kioxia Taiwan Corporation	14,676,478	32.84	Yes	Kioxia Taiwan Corporation	11,413,643	31.03	Yes	Kioxia Taiwan Corporation	3,357,920	54.02	Yes
Vendor A	8,596,304	19.24	None	Vendor A	4,983,567	13.55	None	Vendor A	815,012	13.11	None
Other	21,414,826	47.92	-	Other	20,380,080	55.42	-	Other	2,043,657	32.87	-
Net purchase	44,687,608	100.00	-	Net purchase	36,777,290	100.00	-	Net purchase	6,216,589	100.00	-

Explanations for the increase or decrease:

- (1) Kioxia Taiwan Corporation: The purchase amount of the Company from Kioxia Taiwan Corporation in 2021 and 2022 was NT\$ 14,676,478 thousand and 11,413,643 thousand, respectively, accounting for 32.84% and 31.03% of the net purchase amount of corresponding year; the purchase amount in 2022 was reduced compared with that of 2021, mainly due to stagnant demand for downstream terminal products and reduced customer orders in 2022.
- (2) Vendor A: The purchase amount of the Company from Vendor A in 2021 and 2022 was NT\$ 8,596,304 thousand and 4,983,567 thousand, respectively, accounting for 19.24% and 13.55% of the net purchase amount of corresponding year. The purchase amount in 2022 was reduced compared with that of 2021, mainly due to stagnant demand for downstream terminal products and not significantly increased customer orders in 2022.

#### 5.2.4.2 Major Customers who Have Occupied More Than 10% of the Total Amount of Sales in Any of the Past Two Years

Unit: NT\$ thousand

2021				2022				As of March 31, 2023			
Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
Net sales	62,557,192	100.00	-	Net sales	60,256,142	100.00	-	Net sales	10,078,421	100.00	-

Explanations for the increase or decrease:

The Company did not have any sales to customers that accounted for more than 10% of total sales in 2021 and 2022.

#### 5.2.5 Production Volume Table in the Last Two Years

Production unit: in thousand pieces; Production unit: in thousands of New Taiwan Dollars

Year Production amount Major products	2021			2022		
	Capacity	Quantity	Production value	Capacity	Quantity	Production value
Flash memory and module products	[Note 1]	155,613	37,492,169	[Note 1]	153,554	31,954,751
Integrated circuit	[Note 2]	33,223	1,077,137	[Note 2]	22,002	1,556,171
Controllers	[Note 3]	344,194	4,313,629	[Note 3]	460,756	7,015,962
Others	[Note 4]	-	340,153	[Note 4]	-	472,567
Total		533,030	43,223,088		636,312	40,999,451

[Note 1] The production capacity is not shown because after the development of the controllers, the Company entrusted the fabrication to the foundry and then entrusted the assembly to the module foundry, so the production capacity statistics are not applicable.

[Note 2] The production capacity is not shown because the Company purchased flash memory wafers from the original manufacturer, then commissioned the wafer fabrication and outsourced the sealing and packaging operations to an outsourcing company, so the production capacity statistics are not applicable.

[Note 3] The production capacity is not shown because after the development of the controllers, the Company assigns the fabrication to the wafer fab and then outsources the packaging and testing to the outsourcing company.

[Note 4] Production capacity is not shown because others refer to the material or products sold other than NAND flash application products and controllers, and the income of patent royalty and labor, hence, these things not applicable to the statistics on production capacity.

The output value of the Company's flash memory and module products was decreased in 2022 due to stagnant demand for downstream terminal products and reduced customer orders; the output value of control chips was increased in 2022 due to increased customer orders caused by the completion of new product development and increasing of market acceptance; and the output changes with the demands for the Company's products for the terminal application products..

### 5.2.6 Sales in the Last Two Years and Change Analysis

Sales Unit: In thousand pieces; sales unit: NT\$ thousand

Year Production amount Major products	2021				2022			
	Domestic		Overseas		Domestic		Overseas	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Flash memory and Module products	51,119	14,733,549	104,430	35,381,276	51,654	13,146,790	104,884	29,028,070
Integrated circuit	34,092	390,095	102,156	1,452,582	7,458	465,883	28,757	1,584,656
Controllers	132,498	2,095,933	336,996	8,283,143	91,859	1,913,075	368,899	11,994,086
Others	Note	42,382	Note	178,232	Note	256,293	Note	1,867,289
Total	217,709	17,261,959	543,582	45,295,233	150,971	15,782,041	502,540	44,474,101

Note: Others refer to the material or products sold other than NAND flash application products and controllers, and the income of patent royalty and labor, hence, these things not applicable to the statistics on production capacity.

Explanations for the increase or decrease:

The sales value of the Company's control chips, flash memory and module products was decreased in 2022 due to stagnant demand for downstream terminal products and reduced customer orders; the sales value of control chips was increased in 2022 due to increased customer orders caused by the completion of new product development and increasing of market acceptance; and the sales change with the demands for the Company's products for the terminal application products.

### 5.3 Human Resources in the Previous Two Years Before the Publication of the Annual Report

Number of Employees, Average Years of Services, Average Age and Employee Academic Background in the Previous Two Years Before the Publication of the Annual Report

Year		2021	2022	2023 As of April 30
Number of employees	Supervisor	599	723	720
	Production line staff	332	319	315
	General employees	2,483	3,148	3,216
	Total	3,414	4,190	4,251
Average age		34.1	34.14	34.42
Average year of services		4.34	4.17	4.37
Academic distribution ratio(%)	PhD	0.53	0.62	0.66
	Master	59.52	62.20	62.44
	University	32.45	30.83	30.86
	High school	6.94	5.97	5.71
	Below high school	0.56	0.38	0.33

Note: Adopting IFRS (consolidated statements).

### 5.4 Environmental Protection Expenditures

Our major products are flash memory controllers, flash memory module products, flash memory card etc. All of our products are produced by qualified manufacturers conforming to laws and regulations of environmental protection in manufacturing processes.

**5.4.1 The loss caused by environment pollution (including compensation and environmental protection audit results of violating environmental protection regulations, the date of punishment, the word number of punishment, violation of the provisions of the law, violation of the content of the law, the content of punishment shall also be specified) during the latest year and up to the printing date of this annual report. The Company shall also disclose the estimated amount of current and future events and the measures to be taken, and if it cannot be reasonably estimated, it shall state the fact that it cannot be reasonably estimated.**

Until the publication of this annual report, there is no loss or penalty by competent authorities due to environmental pollution, so this is not applicable.



## **5.5 Labor Relations**

### **5.5.1 The Company's employee benefits for studying, training, pension systems and its implementation status as well as labor agreements and measures for preserving employee rights and interests**

#### **5.5.1.1 Employee Welfare Measures:**

Company:

- (1) Guaranteed salary of 12 months.
- (2) Remuneration for employees to share the profit.
- (3) Salary adjustment each year based on the work performance.
- (4) Year-end bonus of two months (Taiwan).
- (5) Incentive bonus based on the business.
- (6) No promotion barrier.
- (7) Encourage employees to make innovations and high patent bonus will be paid.
- (8) Comprehensive educational trainings and arrangement.
- (9) Encouraging employees to introduce excellent personnel and a high recruiting bonus will be paid. Labor Insurance, National Health Insurance, Pension System, Group Insurance, and Travel Insurance.
- (10) Two days off per week and flexible shift arrangement. The leave system in the Company is better than the requirement of the Labor Standards Act. Annual leave can be advanced after 3 months of service, while 8 days of annual leave will be given after one year of service.
- (11) A total of 3 days for paid family care leave, vaccination leave and quarantine care leave for the whole year, 5 days and 7 days for paid miscarriage leave, 7 days for female prenatal check-up leave, and 7 days for paternity inspection and paternity leave for spouses who are pregnant/giving birth.
- (12) A total of 7 days for holidays and festivals according to the Labor Standards Laws which are allowed for adjusted holidays by the government.
- (13) Nice gifts for senior employees
- (14) Employees can advance salary for buying cars or emergency help, etc.

Providing employees with comfortable, safe and humanized working environment and rest environment:

Company:

- (1) Self-owned plants of more than 30,000 square meters and equipment.
- (2) Regular free for physical examinations every year and health seminars for our employees.
- (3) Leisure Center (with treadmills, aerobics bikes, gym bikes, mobile boxing target, hand football, etc.), yoga classrooms, and outdoor complex ballpark.
- (4) Life assistance programs for employees. (Supported by experts in different fields, including Psychology, Laws, Financial Management, Management, etc.)
- (5) Medical assistance.
- (6) Three months of housing for new employees.
- (7) Food Courts (restaurants, coffee bars, convenience stores, etc.) and flat parking lots, parking towers are provided.
- (8) Meal subsidy.
- (9) Premium farms to provide high quality of organic vegetables and fruits.

Welfare Committee:

- (1) Welfare and leisure activities provided by the Welfare Committee. Subsidy for marriage, child birth, death, hospitalization, etc.
- (2) Domestic and overseas travel subsidy every year.
- (3) Family days and irregular events. Party subsidy every half year.
- (4) Bonus/voucher of three festivals and birthday.
- (5) Gift/voucher/bonus of Labor Day.
- (6) Year-end party with interesting activities and plenty of gifts. Even the smallest gifts are nice.

- (7) The Company provides many clubs and funding support. Currently, there are clubs of swimming, aerobics, yoga, softball, basketball, badminton, hiking, etc.
- (8) Discounts in appointed stores.

#### 5.5.1.2 Advanced Education and Trainings for Employees:

To train the personnel for the operation of the Company, we hold yearly educational training based on the needs of our business every year. Employees can select internal training or external training to improve their personnel skills. In addition to promoting the management capability and professional skills for human resources of the Company, we also encourage our employees to serve as training instructors to train their second expertise.

In 2021 and 2022, the total expenditures of educational training are NT\$3,094,960 and NT\$3,766,402, respectively. The training courses are classified into seven categories, and the status of each category and implementation is as follows:

Category	2021				2022			
	Times	Number of trained people-time	Accumulated hours	Total expense (NT\$)	Times	Number of trained people-time	Accumulated hours	Total expense (NT\$)
Professional Skills	261	16,430	24,774	758,310	207	11,911	14,509	609,042
Quality	199	10,711	30,420	1,600,355	89	2,286	3,884	482,210
Auxiliary Skills	8	140	664	347,284	5	123	628	298,000
Health and Security	41	2,480	3,389	127,405	49	3,440	4,431	135,300
Management	1	36	144	35,000	18	3,352	6,369	1,648,238
Self-inspiration	22	15,122	52,320	64,000	23	36,543	71,966	492,812
Language	17	219	6,548	162,606	7	52	1,320	100,800
Total	549	45,138	118,259	3,094,960	398	57,707	103,107	3,766,402

#### 5.5.1.3 Pension System and its implementation:

The Company has pension regulations that apply to all full-time employees. It regulates the pension payment.

- (1) If the employee chooses the pension system of the Labor Standards Act, the pension will be paid as follows: Based on the years of the service, if it is below 15 years (included), two units per full year will be paid. If it is over 15 years, each full year over the 15 years will add one unit to the pension. However, the maximum number of units is 45. The length below half a year is counted as half a year, the length over half a year but below one year is counted as one year. From Feb of 2001, 3% of the salary is appropriated into the employee pension fund. From Jul of 2016, 2% of the salary is appropriated into the employee pension fund and then transferred to the special account in the Central Trust Bureau under the name of The Supervisory Committee of Workers' Retirement Fund.

- (2) If the employee chooses the pension system of Labor Pension Statutes, the pension will be paid as follows: Employees first choose the length of service which applies to this system. From the start date to the leave date, their companies should appropriate no less than 6% of the salary into the personal pension account. In addition to the amount appropriated by the company, employees may deposit less than 6% of the salary into personal pension account. Two times of appropriation percentage change are allowed in one year.

5.5.1.4 Agreement Between the Employees and the Company and the Measures to Protect Employees' rights:

The Company values the welfare, career, personal skill improvement and opinions of the employees, so the relationship is always good and there is no dispute in the previous two years.

**5.5.2 The loss or penalty caused by disputes between the employees and the company during the latest year and up to the printing date of this annual report.**

In 2022, before the publication of the annual report, the Company's labor relations are in good harmony without any disputes that cause losses. It is anticipated that there will be no such disputes in the future.

**5.6 Information Security Management**

**5.6.1 Describe the information security risk management framework, information security policies, specific management plans and resources devoted to information security management**

The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy," "QW220010 Information System Change Management Specification," "QW220011 Server Host Management Specifications," "QW220006 System Development and Maintenance Management Specifications," etc. On August 17, 2022, an audit meeting was held to review the improvement of information security and assess applicability, and on September 28, 2022, we passed the three-year re-examination of BSI British Standards Association ISO27001 international information security certification. The Company will keep strengthening colleagues and organization over information security protection, and establish joint defense mechanism with vendors or partners in future.

The Company has formulated the Operational Procedures for Information Technology Security Management and Control and submitted it to the Board of Directors for approval on November 4, 2022, to ensure internal compliance with relevant standards, procedures and regulations for information security

**5.6.2 The loss, potential impact and countermeasures caused by material information security incidents during the latest year and up to the printing date of this annual report. If it cannot be reasonably estimated, the reasons for not able to estimate shall also be specified.**

There are no material information security incidents occurred in the Company during recent years and up to the publication of this annual report, so this is not applicable.

## 5.7 Important Contract

Below form contains material contracts valid and/or expired within one year form the publication date of this annual report.

Contract Characterization	The Party	Contract Period	Content	Restriction
License Agreement	Synopsys International limited	Dated from 2003/7/16	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	SD-3C LLC	Dated from 2018/11/29 to 2028/11/28	License	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	SD Association	Dated from 2015/10/25	License	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	4C Entity LLC	Dated from 2003/03/07	4C CPRM/CPPM IP license	Payment of royalty and annual fees
License Agreement	Netac Technology	Dated from 2007/12/20 until patent of both parties expires	Cross-license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
Technical Cooperation Agreement	Intel Corporation	Dated from 2008	Cooperating to build USB 3.0 final specification	Ownership of intellectual property rights and liability of confidentiality.
License Agreement	ARM limited	Dated from 2009/08/10	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	USB Implementers Forum, Inc.	Dated from 2019/10/15	USB-IF trademark license	Member responsibility and confidential liability.
Industry Standard Association & Membership Agreement	USB Implementers Forum, Inc.	Dated from 2019/10/04	USB-IF membership	Member responsibility and confidential liability.
License Agreement	Andes Technology Corp.	Dated from 2012/03/02	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
Industry Standard Association & Membership Agreement	MIPI Alliance Inc.	Dated from 2012/04/18	Membership & related license agreement	Member responsibility and confidential liability.
Industry Standard Association & Membership	Intel Corp.	Dated from 2012/08/09	Adoption of USB3.0 specification	Terms of use of USB 3.0 specification and

Contract Characterization	The Party	Contract Period	Content	Restriction
Agreement				liability of confidentiality.
Industry Standard Association & Membership Agreement	Serial ATA International Organization (SATA-IO)	Dated from 2013/05/31	Authorization of certification mark	Member responsibility and confidential liability.
License Agreement	Cadence Design Systems (Ire) Ltd	Dated from 2013/01/01	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
Industry Standard Association & Membership Agreement	Nvm Express, Inc	Dated from 2014/04/02	Membership & related license agreement	Member responsibility and confidential liability.
License Agreement	PLDA Inc.	Dated from 2015/05/27	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	Intel Corporation	Dated from 2017/07/13	Permitted use and license of Thunderbolt trademark and IP	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	Universal Flash Storage Association, Inc.	Dated from 2018/01/18	Permitted use and license of UFSA Logo	Compliance with the terms of use of UFSA logo.
Industry Standard Association & Membership Agreement	Automotive Edge Computing Consortium, Inc.( Aecc)	Dated from 2020/11/16	Membership & related license agreement	Member responsibility and confidential liability.
Letter of Intent	Y Company	Dated from 2021/07/06	To Secure capacity support for the Phison's operation purpose	The terms of the Letter of Intent shall be kept in secret
Lease Agreement	Super Storage Technology Corporation	2021/09/1-2026/08/31	Lease specified space for office and production use	Compliance with the terms and condition of the Agreement.
Land Tender	Miaoli County Government	2022/01/25	Purchase a piece of land for Phison's expansion demand	Compliance with the terms and condition of the Instructions to Tenderers.
Land Purchase Agreement	Mr. Tianpai Liu	2022/01/29	Purchase a piece of land for Phison's expansion demand	Compliance with the terms and condition of the Agreement.
Share Exchange and Cooperation Agreement	Apacer Technology Inc.	2022/06/02	Phison exchange its held Ud Info Corp.'s shares	Compliance with the terms and condition of the Agreement.

Contract Characterization	The Party	Contract Period	Content	Restriction
			for the acquisition of Apacer Technology Inc. newly issued shares.	

# Chapter 6

## Financial Information





# Chapter 6 Financial Information

## 6.1 Five-Year Financial Summary

### 6.1.1 Condensed Balance Sheet and Comprehensive Income Statement

#### 6.1.1.1 Condensed Balance Sheet-Consolidated Financial Statement

Unit: NT\$ thousand

Unit: NT\$ thousands

Item \ Year		Financial information in the most recent five years [Note 1]					Financial information up to March 31, 2023 [Note 2]
		2018	2019	2020	2021	2022	
Current assets		30,605,807	31,959,839	37,326,925	49,696,587	45,894,585	38,315,863
Property, plant, and equipment		2,990,231	3,282,950	4,646,540	6,650,562	7,597,761	7,522,849
Intangible assets		152,550	268,026	313,894	314,671	375,336	303,123
Other assets [Note 3]		2,689,952	3,125,965	5,276,593	6,359,537	6,122,154	5,534,279
Total asset value		36,438,540	38,636,780	47,563,952	63,021,357	59,989,836	51,676,114
Current liabilities	Before distribution	9,419,631	9,306,381	11,762,682	21,827,193	17,599,091	9,533,890
	After distribution	11,981,593	11,868,343	16,295,384	24,389,155	18,465,053 [Note 4]	9,533,890
Non-current liabilities		107,039	141,771	645,803	3,885,730	4,758,923	4,740,807
Total liabilities	Before distribution	9,526,670	9,448,152	12,408,485	25,712,923	22,358,014	14,274,697
	After distribution	12,088,632	12,010,114	16,941,187	28,274,885	23,223,976 [Note 4]	14,274,697
Equity attributable to shareholders of the parent company		26,911,870	29,162,320	35,155,467	37,308,434	37,631,822	37,401,417
Share capital		1,970,740	1,970,740	1,970,740	1,970,740	1,986,745	1,996,250
Capital surplus		6,674,650	6,724,104	6,586,173	7,238,436	8,970,438	9,255,937
Retained earnings	Before distribution	18,647,407	20,643,601	26,763,895	27,995,974	28,952,665	28,311,946
	After distribution	16,085,445	18,081,639	22,231,193	25,434,012	28,086,703 [Note 4]	28,311,946
Other equity interest		(380,927)	(176,125)	(165,341)	103,284	(216,810)	(101,500)
Treasury stock		0	0	0	0	(2,061,216)	(2,061,216)
Non-controlling Interests		0	26,308	0	0	0	0
Total equity	Before distribution	26,911,870	29,188,628	35,155,467	37,308,434	37,631,822	37,401,417
	After distribution	24,349,908	26,626,666	30,622,765	34,746,472	36,765,860 [Note 4]	37,401,417

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

[Note 2] The financial information as of March 31, 2023 is reviewed by the CPAs.

[Note 3] Other assets are non-current assets, net of property, plant and equipment and intangible assets.

[Note 4] It is based on the amount before distribution calculated by adding or subtracting the cash dividends of NT\$865,962 thousand from the earnings distribution of the second half of 2022 that was approved by the board of directors on March 15, 2023.

### 6.1.1.2 Condensed Balance Sheet -Individual Financial Statement

Unit: NT\$ thousand

Item \ Year		Financial information in the most recent five years [Note 1]					Current year up to March 31, 2023 Financial information
		2018	2019	2020	2021	2022	
Current assets		28,840,540	29,491,045	34,003,761	48,124,361	43,633,729	N/A [Note 2]
Property, plant, and equipment		2,961,130	3,263,440	3,954,832	5,885,272	6,841,301	
Intangible assets		149,381	267,339	310,269	311,911	363,191	
Other assets [Note 3]		3,997,535	5,258,129	9,014,263	8,436,023	8,463,148	
Total asset value		35,948,586	38,279,953	47,283,125	62,757,567	59,301,369	
Current liabilities	Before distribution	8,943,486	8,979,663	11,679,762	21,715,897	17,054,976	
	After distribution	11,505,448	11,541,625	16,212,464	24,277,859	17,920,938 [Note 4]	
Non-current liabilities		93,230	137,970	447,896	3,733,236	4,614,571	
Total liabilities	Before distribution	9,036,716	9,117,633	12,127,658	25,449,133	21,669,547	
	After distribution	11,598,678	11,679,595	16,660,360	28,011,095	22,535,509 [Note 4]	
Equity attributable to shareholders of the parent company		26,911,870	29,162,320	35,155,467	37,308,434	37,631,822	
Share capital		1,970,740	1,970,740	1,970,740	1,970,740	1,986,745	
Capital surplus		6,674,650	6,724,104	6,586,173	7,238,436	8,970,438	
Retained earnings	Before distribution	18,647,407	20,643,601	26,763,895	27,995,974	28,952,665	
	After distribution	16,085,445	18,081,639	22,231,193	25,434,012	28,086,703 [Note 4]	
Other equity interest		(380,927)	(176,125)	(165,341)	103,284	(216,810)	
Treasury stock		0	0	0	0	(2,061,216)	
Non-controlling Interests		0	0	0	0	0	
Total equity	Before distribution	26,911,870	29,162,320	35,155,467	37,308,434	37,631,822	
	After distribution	24,349,908	26,600,358	30,622,765	34,746,472	36,765,860 [Note 4]	

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

[Note 2] According the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Company does not need to prepare interim individual financial report.

[Note 3] Other assets are non-current assets, net of property, plant and equipment and intangible assets.

[Note 4] It is based on the amount before distribution calculated by adding or subtracting the cash dividends of NT\$865,962 thousand from the earnings distribution of the second half of 2022 that was approved by the board of directors on March 15, 2023.

### 6.1.1.3 Condensed Comprehensive Income Statement-Consolidated Financial Statement

Unit: NT\$ thousands (except for Earnings Per Share: NT\$)

Item \ Year	Financial information in the most recent five years [Note 1]					Financial information up to March 31, 2023 [Note 2]
	2018	2019	2020	2021	2022	
Operating revenue	40,788,105	44,693,441	48,496,522	62,557,192	60,256,142	10,078,421
Operating gross profit	9,131,954	11,149,275	12,247,475	19,099,784	17,349,892	3,202,519
Operating profit (loss)	4,709,784	5,210,013	3,889,607	9,084,449	6,843,922	838,380
Non-operating revenue and expenses	295,397	140,921	5,803,822	653,165	(547,002)	(524,272)
Net income before tax	5,005,181	5,350,934	9,693,429	9,737,614	6,296,920	314,108
Net income from continuing operations	4,318,119	4,545,837	8,706,751	8,147,215	5,401,146	242,103
Loss from discontinued operations	0	0	0	0	0	0
Net income (loss) for the period	4,318,119	4,545,837	8,706,751	8,147,215	5,401,146	242,103
Other comprehensive income (loss) for the period (Net value after tax)	(171,742)	218,500	22,503	279,914	(231,847)	98,450
Total comprehensive income for the period	4,146,377	4,764,337	8,729,254	8,427,129	5,169,299	340,553
Net income attributable to shareholders of the parent company	4,318,119	4,543,489	8,699,044	8,147,215	5,401,146	242,103
Net income attributable to non-controlling interests	0	2,348	7,707	0	0	0
Total comprehensive income attributable to owners of the parent	4,146,377	4,762,958	8,721,255	8,427,129	5,169,299	340,553
Total comprehensive income attributable to non-controlling interests	0	1,379	7,999	0	0	0
EPS	21.91	23.05	44.14	41.34	27.71	1.26

[Note 1] The financial information for the preceding year has been audited by a certified public accountant

[Note 2] The financial information as of March 31, 2023 is reviewed by the CPAs..

#### 6.1.1.4 Condensed Comprehensive Income Statement-Individual Financial Statement

Unit: NT\$ thousands (except for Earnings Per Share: NT\$)

Item \ Year	Financial information in the most recent five years [Note 1]					Financial data up to March 31, 2023
	2018	2019	2020	2021	2022	
Operating revenue	40,804,130	44,479,275	48,350,427	62,552,823	59,571,015	N/A [Note 2]
Operating gross profit	9,131,272	11,152,581	12,154,933	18,994,163	16,910,189	
Operating profit (loss)	4,736,351	5,212,694	3,849,050	9,033,557	6,644,086	
Non-operating revenue and expenses	264,002	127,752	5,455,206	555,084	(411,462)	
Net income before tax	5,000,353	5,340,446	9,304,256	9,588,641	6,232,624	
Net income from continuing operations	4,318,119	4,543,489	8,699,044	8,147,215	5,401,146	
Loss from discontinued operations	0	0	0	0	0	
Net income (loss) for the period	4,318,119	4,543,489	8,699,044	8,147,215	5,401,146	
Other comprehensive income (loss) for the period (Net value after tax)	(171,742)	219,469	22,211	279,914	(231,847)	
Total comprehensive income for the period	4,146,377	4,762,958	8,721,255	8,427,129	5,169,299	
EPS	21.91	23.05	44.14	41.34	27.71	

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

[Note 2] The Company did not publish the financial information of 2023's first quarter, so it is not applicable.

### 6.1.2 Names of CPAs for the Last Five Years and Their Audit Opinions

Year	Name of the accounting firm	Names of the CPAs	Audit opinion
2018	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, You Wei Fan	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2019	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, Li Wen Kuo	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2020	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, Li Wen Kuo	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2021	KPMG	Chien Hui Lu, Wan Yuan Yu	An Unmodified Opinion with a Paragraph of Other Matters
2022	KPMG	Chien Hui Lu, Wan Yuan Yu	An Unmodified Opinion

## 6.2 Financial analysis in the most recent five years

### 6.2.1 Financial Analysis in the Most Recent Five Years-Consolidated Financial Statement that Adopts IFRS

Item \ Year		Financial analysis for the most recent five years [Note 1]					Current year up to March 31, 2023 [Note 2]
		2018	2019	2020	2021	2022	
Financial structure (%)	Ratio of liabilities to assets	26.14	24.45	26.09	40.80	37.27	27.62
	Ratio of long-term capital to property, plant, and equipment	899.99	889.10	760.80	619.41	557.94	560.19
Solvency (%)	Current ratio	324.92	343.42	317.33	227.68	260.78	401.89
	Quick ratio	243.81	216.46	230.49	138.25	144.52	180.11
	Times interest earned ratio	988.22	2,668.46	1,889.82	513.34	176.98	38.41
Operation performance	Receivables turnover (times)	7.43	8.00	8.12	8.48	7.55	6.08
	Average days for cash receipts	49.12	45.62	44.95	43.04	48.34	60.03
	Inventory turnover ratio (times)	4.29	3.51	3.34	2.93	2.15	1.32
	Payables turnover ratio (times)	7.49	7.94	10.21	6.95	5.64	6.55
	Average days for sale of goods	85.08	103.98	109.28	124.57	169.76	276.51
	PP&E turnover ratio (times)	14.03	14.25	12.23	11.07	8.46	5.33
	Total asset turnover ratio (times)	1.14	1.19	1.13	1.13	0.98	0.72
Profitability	Return on assets (%)	12.08	12.11	20.21	14.76	8.83	1.78
	Return on equity (%)	16.30	16.21	27.06	22.49	14.41	2.58
	Ratio of income before tax to paid-in capital (%)	253.97	271.52	491.87	494.11	316.95	62.94
	Net profit rate (%)	10.59	10.17	17.95	13.02	8.96	2.40
	Earnings per share (NT\$)	21.91	23.05	44.14	41.34	27.71	1.26
Cash flow	Cash flow ratio (%)	55.34	0.00	56.13	23.35	20.29	0.00
	Cash flow adequacy ratio (%)	114.62	83.19	87.99	56.80	51.42	39.83
	Cash re-investment ratio (%)	6.73	(9.17)	10.94	1.33	(2.18)	(15.40)
Leverage	Degree of operating leverage (DOL)	1.09	1.09	1.15	1.09	1.15	1.38
	Degree of financial leverage (DFL)	1.00	1.00	1.00	1.00	1.01	1.01

Explanations on changes in various financial ratios in the most recent two years:

- (1) The decrease in the interest cover ratio is caused due to the decrease in Profit before Tax and the increase in interest expenditure due to the issuance of convertible corporate bonds in 2022.
- (2) The decrease in the inventory turnover and the increase in the average number of sales days are caused due to the increase in inventory at the end of 2022.
- (3) The decrease in turnover of property, plant and equipment is mainly caused due to the decrease in operating income and the increase in fixed assets due to the completion and acceptance of buildings and the acquisition of land in 2022.
- (4) The decrease in return on assets, return on equity, proportion of net income before tax to paid-in capital, net income and earnings per share is caused due to the decrease in net income before tax due to the decrease in gross operating profit and non-operating income in 2022.
- (5) The decrease in the cash reinvestment ratio is caused due to the decrease in net cash flow from operating activities due to the increase in inventories and the increase in real estate, plant and equipment and intangible assets at the end of 2022.

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

[Note 2] The financial information as of March 31, 2023 is reviewed by the CPAs.

## 6.2.2 Financial analysis in recent five years-Individual Financial Report that adopts IFRS

Item		Year	Financial information in the most recent five years [Note]				
			2018	2019	2020	2021	2022
Financial structure (%)	Ratio of liabilities to assets		25.14	23.82	25.65	40.55	36.54
	Ratio of long-term capital to property, plant, and equipment		908.84	893.61	888.92	697.36	617.52
Solvency (%)	Current ratio		322.48	328.42	291.13	221.61	255.84
	Quick ratio		238.01	197.85	203.98	131.77	136.54
	Times interest earned ratio		987.26	2,663.24	2,949.12	625.30	198.08
Operation performance	Receivables turnover (times)		7.50	7.99	8.12	8.48	7.52
	Average days for cash receipts		48.66	45.68	44.95	43.04	48.53
	Inventory turnover ratio (times)		4.31	3.52	3.35	2.94	2.15
	Payables turnover ratio (times)		7.50	7.90	10.14	6.89	5.65
	Average days for sale of goods		84.68	103.69	108.95	124.14	169.76
	PP&E turnover ratio (times)		14.18	14.29	13.40	12.71	9.36
	Total asset turnover ratio (times)		1.16	1.20	1.13	1.14	0.98
Profitability	Return on assets (%)		12.26	12.25	20.34	14.83	8.89
	Return on equity attributable to shareholders of parent company (%)		16.30	16.21	27.05	22.49	14.41
	Ratio of income before tax to paid-in capital (%)		253.73	270.99	472.12	486.55	313.71
	Net profit rate (%)		10.58	10.21	17.99	13.02	9.07
	Earnings per share (NT\$)		21.91	23.05	44.14	41.34	27.71
Cash flow	Cash flow ratio (%)		58.27	0.00	58.28	23.32	17.34
	Cash flow adequacy ratio (%)		109.76	85.39	89.79	57.76	50.72
	Cash re-investment ratio (%)		6.74	(9.10)	11.62	1.26	(3.61)
Leverage	Degree of operating leverage (DOL)		1.09	1.08	1.14	1.08	1.14
	Degree of financial leverage (DFL)		1.00	1.00	1.00	1.00	1.00

Explanations on changes in various financial ratios in the most recent two years:

- (1) The decrease in the interest cover ratio is caused due to the decrease in Profit before Tax and the increase in interest expenditure due to the issuance of convertible corporate bonds in 2022.
- (2) The decrease in the inventory turnover and the increase in the average number of sales days are caused due to the increase in inventory at the end of 2022.
- (3) The decrease in turnover of property, plant and equipment is mainly caused due to the decrease in operating income and the increase in fixed assets due to the completion and acceptance of buildings and the acquisition of land in 2022.
- (4) The decrease in return on assets, return on equity, proportion of net income before tax to paid-in capital, net income and earnings per share is caused due to the decrease in net income before tax due to the decrease in gross operating profit and non-operating income in 2022.
- (5) The decrease in the cash reinvestment ratio is caused due to the decrease in net cash flow from operating activities due to the increase in inventories and the increase in real estate, plant and equipment and intangible assets at the end of 2022.

[Note] The financial information for the preceding year has been audited by a certified public accountant and no financial information for 2023 has been audited or reviewed by a certified public accountant as of the date of publication of the annual report.



**\*\*The financial ratio calculation formula is as follows:**

1. Financial structure

- (1) Liability to asset ratio = Total liabilities/total assets.
- (2) Long-term capital as a proportion of PP&E = (Total equities + non-current liabilities)/ Net value of PP&E.

2. Solvency

- (1) Current ratio = Current assets/current liabilities
- (2) Quick ratio = (Current assets - inventory - prepaid expenditures)/current liabilities.
- (3) Times interest earned ratio = Income before income tax and interest expenditure/interest expenditures for the period.

3. Operation performance

- (1) Receivables turnover rate (including notes receivable resulting from accounts receivable and business operations) = Net sales/average accounts receivable in various periods (including notes receivable resulting from accounts receivable and business operations).
- (2) Average collection days = 365/receivables turnover ratio.
- (3) Inventory turnover = Sales expense/average inventory value.
- (4) Payables turnover ratio (including notes payable resulting from accounts payable and business operations) = Cost of sales/average accounts payable in various periods (including notes payable resulting from accounts payable and business operations).
- (5) Average sales days = 365/inventory turnover ratio.
- (6) PP&E turnover ratio = Net sale/average PP&E value.
- (7) Total asset turnover ratio = Net sales/average total PP&E value.

4. Profitability

- (1) Return on assets = [Net profit after taxes + interest expense (1– Tax rate)]/average total assets.
- (2) Return on equity = Net gain (loss) after tax/average equity value.
- (3) Net profit ratio = Net gain (loss) after tax/net sales.
- (4) Earnings per share = (Gain (loss) attributable to the shareholders of the parent company - dividend for preferred shares)/weighted average of issued shares

5. Cash flow

- (1) Cash flow ratio = Net cash from business activities/current liabilities.
- (2) Net cash flow adequacy ratio = Net cash flow for business activities for the last 5 years/(Capital expenses + Additional inventory sum + Cash dividend) for the past 5 fiscal years.
- (3) Cash re-investment ratio = (Net cash flow from business activities - cash dividend)/(gross amount of PP&E + long-term investments + other non-current assets + business capital).

6. Degree of leverage:

- (1) Degree of operating leverage (DOL) = (Net sales - variable operating cost and expense)/operating income
- (2) Degree of Financial Leverage (DFL) = Operating profit/(operating profit - interest expenditures).

### 6.3 2022 Audit Committee's Review Report

## **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

- 6.4 2022 Financial Statements (Including CPA Audit Report, Two-year Comparative Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Chart, and Notes or Attachments): Please refer to Page 208 to Page 298.**
- 6.5 The Audited Nonconsolidated Financial Statement for the Year of 2022: Please refer to Page 299 to Page 392.**
- 6.6 Financial Impact on the Company where the Company and its Affiliated Companies Have Incurred any Financial or Cash Flow Difficulties in the Most Recent Year and as of the Publication Date of the Annual Report: None.**



# **Chapter 7**

## **Financial Status and Operating Results Review and Risk Matters**

# Chapter 7 Financial Status and Operating Results Review and Risk Matters

## 7.1 Financial Status Analysis

### Consolidated Financial Statements

Unit: NT\$ thousand

Item \ Year	2022.12.31	2021.12.31	Difference	
			Amount	%
Cash and cash equivalents	17,033,769	19,040,947	(2,007,178)	(10.54)
Financial assets at fair value through profit or loss-current	785,022	1,206,954	(421,932)	(34.96)
Accounts receivable	7,236,795	8,729,261	(1,492,466)	(17.10)
Inventories	20,390,375	19,496,534	893,841	4.58
Other current assets	448,624	1,222,891	(774,267)	(63.31)
Financial assets at fair value through profit or loss - non-current	317,347	451,569	(134,222)	(29.72)
Financial assets at fair value through other comprehensive income - non-current	431,697	634,757	(203,060)	(31.99)
Investment accounted for using equity method	3,693,963	4,155,042	(461,079)	(11.10)
Property, plant, and equipment	7,597,761	6,650,562	947,199	14.24
Other non-current assets	2,054,483	1,432,840	621,643	43.39
<b>Total assets</b>	<b>59,989,836</b>	<b>63,021,357</b>	<b>(3,031,521)</b>	<b>(4.81)</b>
Accounts payables	6,178,973	9,036,683	(2,857,710)	(31.62)
Other current liabilities	11,420,118	12,790,510	(1,370,392)	(10.71)
Bonds payable	3,442,031	3,412,855	29,176	0.85
Other non-current liabilities	1,316,892	472,875	844,017	178.49
<b>Total liabilities</b>	<b>22,358,014</b>	<b>25,712,923</b>	<b>(3,354,909)</b>	<b>(13.05)</b>
Common Shares	1,986,745	1,970,740	16,005	0.81
Capital surplus	8,970,438	7,238,436	1,732,002	23.93
Retained earnings	28,952,665	27,995,974	956,691	3.42
Other equity interest	(216,810)	103,284	(320,094)	(309.92)
Treasury Shares	(2,061,216)	0	(2,061,216)	100.00
<b>Total equity attributable to shareholders of the parent company</b>	<b>37,631,822</b>	<b>37,308,434</b>	<b>323,388</b>	<b>0.87</b>
Non-controlling Interests	0	0	0	0
<b>Total equity</b>	<b>37,631,822</b>	<b>37,308,434</b>	<b>323,388</b>	<b>0.87</b>

Cause and impact of the significant differences (more than 20% and NT\$10 million) of assets, liabilities, and equities in the most recent two years:

- (1) The decrease in financial assets at fair value through profit or loss - current was mainly due to the redemption of funds.
- (2) The decrease in other current assets is caused due to the decrease in financial assets at amortized cost-current and Tax refund receivable.
- (3) The decrease in financial assets at fair value through profit or loss - non-current is caused due to valuation loss.
- (4) The decrease in financial assets at fair value through other comprehensive income - non-current is mainly caused due to the disposal investment and valuation losses.
- (5) The increase in other non-current assets is mainly caused due to the increase in deferred tax assets and intangible assets.
- (6) The increase in accounts payable is caused due to the increase in purchases at the end of the period.
- (7) The increase in other non-current liabilities is mainly caused due to the increase in guarantee deposits received.
- (8) The increase in capital surplus is caused due to the increase in the net equity of associates recognized under the equity method and the issued share options of employees.
- (9) The decrease in other equity interest is mainly caused due to the loss on valuation of financial assets at fair value through other comprehensive income.
- (10) The increase in treasury shares is caused due to the repurchase of treasury shares in 2022.

## 7.2 Operating Results Analysis

### 7.2.1 Comparison Analysis of Operating Results

#### Consolidated Statements of Comprehensive Income

Unit: NT\$ thousand

Item \ Year	2022 (Consolidated)		2021 (Consolidated)		2022 Growth rate
	Amount	%	Amount	%	%
Operating revenue	60,256,142	100.00	62,557,192	100.00	(3.68)
Operating costs	42,906,250	71.21	43,457,408	69.47	(1.27)
Operating gross profit	17,349,892	28.79	19,099,784	30.53	(9.16)
Marketing expenses	1,268,136	2.10	1,034,735	1.65	22.56
Administrative expenses	1,044,298	1.73	846,159	1.35	23.42
R&D expenses	8,130,501	13.49	8,127,841	12.99	0.03
Expected credit loss (gain)	63,035	0.10	6,600	0.01	855.08
Operating expenses	10,505,970	17.44	10,015,335	16.01	4.90
Net operating profit	6,843,922	11.36	9,084,449	14.52	(24.66)
Non-operating income and expenses	(547,002)	(0.91)	653,165	1.04	(183.75)
Net income before tax	6,296,920	10.45	9,737,614	15.57	(35.33)
Income tax expense	895,774	1.49	1,590,399	2.54	(43.68)
Net profit for the period	5,401,146	8.96	8,147,215	13.02	(33.71)
Other comprehensive income (loss)	(231,847)	(0.38)	279,914	0.45	(182.83)
Total comprehensive income for the period	5,169,299	8.58	8,427,129	13.47	(38.66)
Net profit for the period attributable to owners of the parent company	5,401,146	8.96	8,147,215	13.02	(33.71)
Comprehensive income (loss) for the period attributable to shareholders of the parent company	5,169,299	8.58	8,427,129	13.47	(38.66)
Earnings per share (NT\$)	27.71		41.34		(32.97)

Cause and impact of the significant differences (more than 20% and NT\$10 million) of assets, liabilities, and equities in the most recent two years:

- (1) The increase in operating expenses is mainly caused due to the increase in the number of employees and the sales expenses.
- (2) Changes in expected credit impairment losses are caused due to the increase in overdue accounts receivable in 2022.
- (3) The decrease in net operating profit is mainly caused due to the decrease in operating gross profit and the increase in operating expenses due to the decline in market price.
- (4) The decrease in net non-operating income and expenses is mainly caused due to the increase in the share of losses of associates recognized under the equity method in 2022.
- (5) The decrease in income tax expense is mainly caused due to the decrease in domestic taxable income and deferred tax.
- (6) The decrease in other comprehensive income is mainly caused due to the adjustment of the investment evaluation of equity instruments measured at fair value through other comprehensive income.

## 7.2.2 The Operating Gross Profit Difference Analysis

Unit: NT\$ thousand

Item	Increase (decrease) in the preceding and following periods	Reasons			
		Price difference	Cost difference	Sales combination difference	Quantity difference
Operating gross profit	(1,749,892)	(404,778,653)	291,095,625	110,851,342	1,081,794
Reason	1. Market price difference disadvantage: Mainly caused due to the decline in the average unit selling price due to the decreased marketing price of finished products. 2. Cost difference advantage: Mainly caused due to the increase in income from labor and royalties, and its lower costs. 3. Sales combination difference advantage: Mainly caused due to the increase in income from labor and royalties. 4. Quantity difference advantage: Mainly due to the increase in the total shipments.				

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for Recent Year

Unit: NT\$ thousand

Item \ Year	2021	2022	Increase (Decrease) Amount	Increasing (Decreasing) Percentage%
Operating activities	5,097,230	3,571,716	(1,525,514)	(29.93)
Investing activities	1,199,152	(976,499)	(2,175,651)	(181.43)
Financing activities	(2,118,646)	(5,080,379)	(2,961,733)	(139.79)
Analysis of the reasons for changes of 20% or more in the percentage of increase or decrease: 1. Decrease in net cash flows generated from operating activities: This was mainly due to the decrease in accounts payable at the end of 2022. 2. Decrease in net cash flows generated from investing activities: The disposal of financial assets at fair value through profit or loss was mainly due to the Company's disposal of financial assets at fair value of 2022. 3. Increase in cash outflows from financing activities: Mainly resulted is distribution of cash dividends to shareholders and buy back treasury stock.				

### 7.3.2 Remedy Action for Estimated Cash Inadequacy: No concern for estimated cash inadequacy.



### 7.3.3 Analysis of the Cash Flow Difference of the Next Year:

Unit: NT\$ thousand

Cash balance amount at the beginning of the year (1)	Estimated cash flow from operating activities (2)	Estimated cash used in investing and financing activities (3)	Estimated cash balance (inadequacy) (1)+(2)-(3)	Remedy for cash inadequacy	
				Investment plan	Financing plan
17,033,769	(2,833,464)	3,173,798	11,026,507	N/A	N/A
<p>1. Analysis of the cash flow difference of the next year:</p> <p>Operating activities: Mainly resulted from the estimated inventory needs and operation status.</p> <p>Investing activities: Mainly resulted from expenses, such as the acquisition of fixed assets and intangible assets, and the increase of reinvestment plans.</p> <p>Financing activities: Mainly resulted from the expenses, such as distribution of cash dividends to shareholders and execution of employee stock option capital increase.</p> <p>2. Remedy action for estimated cash inadequacy: N/A.</p>					

### 7.4 2022 Major Capital Expenditures and Impact on Financial and Business:

#### 7.4.1 Major Capital Expenditure Items and Source of Capital:

Unit: NT\$ thousand

Item	Content	Total capital amount	Estimated source of capital	Estimated purchase or construction timeline	Capital application		
					2020	2021	2022
Jhunan Phase V Plant Building Construction Project	Two floors underground and seven floors above ground of the plant building are built with a reinforced concrete (RC) structure, the total floor area is around 13,508 flat (1 flat = 3.3057 square meters)	1,398,000	Own funds	2020/03/01 - 2022/06/30	419,400	908,700	69,900
New construction of Jhunan Plant and ancillary loading and unloading parking space	Two floors underground and nine floors above ground of the parking building are built with a reinforced concrete (RC) structure, the total floor area is around 9,400 flat (1 flat = 3.3057 square meters)	829,000	Own funds	2022/02/05~ 2022/06/30	13,397	566,903	248,700
Obtained land in Datong Section, Zhunan Township, Miaoli County	Announced on January 25, 2022 to acquire the land.	346,660	Own funds	2022/01/25	0	0	346,660

#### 7.4.2 Impact on Financial and Business:

Since the operation of the Company is in good status, the source of major capital expenditure in recent years is mainly the own operating capital. The Company has evaluated the fund necessity of purchasing land and constructing plant plans prudently and properly planned the use of operating funds, therefore, there is no major adverse impact on the Company and its subsidiaries' financial and business status.

#### 7.4.3 Expected Benefits:

It will help the Company to increase the flexibility and effective use of business space in response to the future expansion of its operations and the expansion of its organizational staff, so as to improve the Company's operational performance and avoid the fragmentation of its operating sites, which will reduce the efficiency of its operational management, and will have positive benefits for the Company's operations.

### 7.5 2022 Investment Policy, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for 2023

#### 7.5.1 Investment Policy in the Most Recent Year

The investment policy of the Company is to help the Company improve the NAND Flash system integration technology. The major directions for the investment include strategic investment, diverse operation, and business scope expansion, as well as increasing the investment profit to promote shareholders' interests.

#### 7.5.2 The main reasons for the profit or loss of the most recent investment, improvement plans, and investment plans for the coming year

Unit: NT\$ thousand

Name of be Reinvested Company	Main Business Activities	2022 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
Global Flash Limited	Investment and trade	(857,194)	Recognition of investment interests in affiliated companies using the equity method	None	None
Regis Investment (Samoa) Limited	Investment	(469,967)	Recognition of investment interests in affiliated companies using the equity method	None	None
Phisontech Electronics Taiwan Corp.	Investment and trade	44,007	Recognition of investment interests in affiliated companies using the equity method	None	None
Lian Xu Dong Investment Corporation	Investment	13,991	Valuation gain of dividend earned and recognized financial assets	None	None

Name of be Reinvested Company	Main Business Activities	2022 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
EpoStar Electronics (BVI) Corporation	Investment	324	Recognition of loss on disposal of investments	None	None
Emtops Electronics Corp.	Investment	17,524	Recognition of investment interests in affiliated companies using the equity method	None	None
Power Flash (Samoa) Limited	Investment and trade	2,180	Recognition of unrealized foreign currency exchange losses	None	None
Everspeed Technology Limited	Trade of electronic components	(4,051)	Recognition of investment interests in affiliated companies using the equity method	None	None
ProGrade Digital Inc.	High-speed flash memory product and market development	21,158	Stable growth in operations and profitability of the business	None	None
Nextorage Corporation	Development, design, manufacturing and sales of flash memory application products	121,487	Stable growth in operations and profitability of the business	None	None
Phison Electronics Japan Corp.	Sales and service office	997	Stable operations and modest profitability for the business	None	None
Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	(1)	The establishment was completed at the end of the year, but not yet in operation	None	None
Microtops Design Corporation	Design and development of flash memory controller chips for peripheral applications	2,437	Recognition of unrealized foreign currency exchange gains	None	None
Ostek Corp.	Manufacturing and trade of electronic components	N/A	-	None	None
Phison Technology Inc.	Sales and service office	N/A	-	None	None
Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	N/A	-	None	None
Super Storage Technology Corporation	Manufacturing and trade of electronic components	N/A	-	None	None
Core Storage Electronic(Samoa) Limited	Investment and trade	N/A	-	None	None
Power Flash (HK) Limited	Sale, trade of electronic products	N/A	-	None	None
RealYou Investment Limited	Investment	N/A	-	None	None

Name of be Reinvested Company	Main Business Activities	2022 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
Hefei Ruhan Electronic Technology Limited	R&D, design, sale, technical service of electronics hardware and software and related services and investment	N/A	-	None	None
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	N/A	-	None	None
Hefei Xinpeng Technology Co., Ltd.	The Company is engaged in the research and development, production, sales and technical services of electronic products and hardware and software, as well as general investment.	N/A	-	None	None
HOSIN Global Electronics Co., Ltd.	R&D, sales, technical services and electronic products software and hardware and rendering of related services.	N/A	-	None	None

## 7.6 Risk Management and Analysis

### 7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Measures

Interest rate: The assets and liabilities with floating interest rates held by the Company may fluctuate cash flows of the assets and liabilities in the future due to the changes in interest rates and lead to risks. Yet, the Company anticipates that the change of interest rates will not have significant impacts on the Company's cash flow in future.

The interests of the Company and its subsidiary companies in 2021 and 2022 are NT\$19,006 thousand and NT\$35,783 thousand respectively, accounting for 0.03% and 0.06% of the net operating revenue of the corresponding year. So, the change in interest rates has no significant impact on the overall operation of the Company.

By the end of 2022, the Company had long-term loans of NT\$133,882 thousand. in the next year, so the change in interest rates has no significant impact on the net results of the Company. Yet, the Company will continually pay attention to the trend of interest rates and regularly assess the financing policies.

Foreign exchange rate: The Company and its subsidiaries engage in foreign currency-denominated sales and purchase transactions, which expose the Consolidated Company to exchange rate fluctuations. The Company and its subsidiaries are engaged in the sales and purchase transactions of foreign currency denominations, thus causing the merging company to generate a risk of exchange rate changes. The Company and its subsidiaries are engaged in foreign currency borrowing to hedge the exchange rate risk of some foreign currency net assets or net liabilities. The profit and loss arising from the exchange rate fluctuation are roughly offset against the gains and losses of the hedged items. Therefore, market risk is not significant.

The Company usually quotes the price of the sales by US dollars and quotes the price of purchases by US dollars and NT dollars. Although the risk of foreign exchange rate is partially offset, if the change is in big fluctuations, it can still exert impacts on the revenue and profit of the Company. In 2022, the foreign exchange benefits is NT\$755,681 thousand, which is the profit resulted from the fluctuation of the foreign exchange rate. The finance department of the Company pays attention to the trend at all times to hedge against risks. In addition, the finance department keeps a good relationship with banks to obtain information and suggestions about the trend of foreign exchange rate. Based on the information and suggestions, the finance department will take actions to reduce the risk of foreign exchange rates.

Inflation: In 2022 and as of the publication date of the annual report, the inflation has no significant impact on the net profit or loss of the Company and its subsidiaries.

#### **7.6.2 Policies, Main Causes of Gain or Loss and Future Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions**

In 2022 and as of the publication date of the annual report, the Company only makes short-term transactions in foreign currency to hedge against the risk of foreign exchange rate. Besides these transactions, the company did not make any investment with high leverage and high risk. The Company has established the internal control regulations, such as “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee” and “Procedures for Engaging in Derivatives Trading”. The Company has never loaned money to others and never endorsed for others so far. The Company limits its derivative product trades only to hedge in trades. Therefore, these operations will not affect the profit or loss of the Company.

#### **7.6.3 Future R&D Projects and Estimated Expenditures**

##### **1. Major R&D Projects in 2023:**

- (1) 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.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) Continue to launch Redriver/Retimer ICs for PCs, servers, and vehicle systems to provide the best signal stabilization solution for high-speed transmission platforms.

2. R&D budget: the company has invested its R&D resources into the development of flash memory controllers and the system products with high-performance functions and, the results have been introduced to the market successfully. In the future, the company will continually invest into the R&D. The R&D expenses will be growing with the increase of operating revenue. As long as the development of new products is completed, the products will be massively produced immediately. The main success factors in the research & development are based on the capability and well knowledge on software and hardware technology of the R&D personnel. The company is

confident that the company's R&D team will be complete all task with long-term accumulation of experience. The estimated R&D expenditure for the year 2023 is approximately NT\$ 800 million.

#### **7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Business**

The Company abides by the national policy and laws and pays close attention to the new policies and law amendments. Our internal systems and operations will be adjusted according to these changes to ensure the operation of the Company. We will continue to pay attention to domestic/overseas changes on policies and law amendments, and evaluate these changes accordingly at all times. There is no impact on the finances of the Company so far because of the changes on policies and law amendments.

#### **7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Business**

1. In recently years, small IT products are popular in the market and the demand for portable storage is growing rapidly, so more and more application products of built-in flash have been announced. There are many new transfer interfaces to meet the needs of customers. In addition, more and more products are equipped with SSD instead of traditional hard disks. Hence, the demand for small storage media, built-in flash model and SSD is steadily growing and these products are beneficial to the finance and business of the Company. We will invest more R&D resources into these products to respond to the new challenge from the new technology in the future.
2. With the advancement of internet and information technology, information is open to the whole world, and work efficiency is greatly improved by many new tools. We have built an environment for automatic design to promote the effectiveness and efficiency of product development. We have successfully introduced TIPTOP GP ERP System, AgentFlow system, Phison life plaza, and SAMP system to effectively integrate the internal control functions, promote productivity and monitor the product quality.
3. The important risk assessments such as the assessment and evaluation of information security risks and their response measurement: The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy," "QW220010 Information System Change Management Specification," "QW220011 Server Host Management Specifications," "QW220006 System Development and Maintenance Management Specifications," etc. On August 17, 2021, an audit meeting was held to review the improvement of information security and assess applicability, and on September 28, 2022, we passed the three-year re-examination of BSI British Standards Association ISO27001 international information security certification. The Company will keep strengthening colleagues and organization over information security protection, and establish joint defense mechanism with vendors or partners in future.

#### **7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

The Company has focused on the flash memory controllers and the relevant application systems to maintain the leadership in IC design technology, new concepts of application products, their production, flash memory peripheral applications and flash memory controller technology. Many products have been sold all over the world and receiving orders from the major OEM and ODM companies. The Company creates the image of "youngest, fastest and strongest in the operation of this industry". So far, the Company keeps a good image and there is no significant change that endangers the Company.

#### **7.6.7 Expected Benefits and Risks Relating to Merger and Acquisition Plans and Response Measures**

The Company did not have any risk of merger and acquisition from 2022 to the printing date of the annual report.

#### **7.6.8 Expected Benefits and Risks Relating to Plant Expansion Plans and Response Measures**

In response to the growth of the Company's operation scale, the Board of Directors approved the new construction project of the Jhunan Phase V Plant Building by self-appointed construction on January 17, 2020. The main purpose of the new factory building is to increase the storage space, office area for additional R&D team and the overall employee function area, in order to match the Company's operation strategy and expect to bring in more talented people to strengthen the Company's R&D niche and accelerate the growth of the Company's operation scale. The total construction cost of the turnkey project is approximately NT\$1,398,000 thousand. In addition, on November 12, 2020, the Board of Directors resolved to build a factory and ancillary loading and unloading parking space in the Jhunan Science and Technology Park by self-appointed construction. The total cost of the turnkey project is approximately NT\$829,000 thousand. The above-mentioned project has been accepted and put into operation in June 2011, in line with the growth of the Company's operation scale and number of employees and the construction of a new physical parking lot for employees in the Jhunan Phase V plant. On January 21, 2022, the Board of Directors approved the acquisition of land from a related party in Guangyuan Section, Zhunan Township, Miaoli County, for the purpose of building a new parking lot in response to the growth in the number of employees, for a total transaction amount of NT\$39,500 thousand. On the same day, the Board of Directors approved to acquire land in Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government by participating in a tender for the construction of a complex recreation hall or other space, and the Company won the tender on January 25 of the same year for a total transaction amount of NT\$346,660 thousand.

In addition to the above-mentioned plans, the Company will continue to carefully evaluate and plan for major investment projects and needs such as the acquisition of land, buildings or the construction of plants, depending on the actual operational needs of the Group's domestic and overseas companies.

Expected Benefits and Response Measures: None.



## **7.6.9 Risks Relating to Excessive Concentration of Purchasing Sources and Customers and Response Measures**

### **1. Excessive Concentration of Purchasing Sources:**

The Company is focusing on the flash memory controllers and flash memory application system products (i.e. pen drive, memory cards, eMMC, SSD, etc.). The material of all these application system products is flash memory. The major suppliers of flash memory are Samsung in Korea, KIOXIA in Japan, Hynix in Korea, Micron, and Sandisk in the US. The development of controllers and system products needs to be implemented based on the specification of flash memory, so the collaboration between controller or system product manufacturers and the flash memory suppliers should be very close. Excessive concentration of purchasing sources is regular in this industry.

The Company's major supplier is KIOXIA Taiwan Corporation (Kioxia KITW), which is a subsidiary of KIOXIA Japan. KIOXIA Japan invested in the Company due to the capability of controller and system product design. KIOXIA Japan invested and closely collaborated with the Company to develop various products. The Company coordinates the new flash memory technologies of MLC (Multiple Cell Type), TLC (Triple-level Cell), and 3D Nand from KIOXIA Japan to design the controllers with high performance and high compatibility. We also purchase the relevant flash memory application products from the affiliates of KIOXIA Japan for our system products. The performance of the firmware in controllers by using KIOXIA flash memory is excellent and we have successfully developed many flash memory application products, our partnership with KIOXIA goes closer and smoothly. Those are the reason the company purchased flash memory from the affiliates of KIOXIA Japan in the excessive concentration of purchasing sources. Since we have been cooperating with KIOXIA Japan for several years, the supply situation is still stable, so there is no significant risk of importation.

### **2. Excessive Concentration of Customers:**

The Company's main sales targets include global electronic distributors and brand owners, industrial application manufacturers, etc. The Company also directly or indirectly supplies storage applications to brand manufacturers of various applications such as cell phones, NBs and game consoles, and its sales territories cover the world. For the most recent year and up to the printing date of the annual report, the Company had no sales to a single customer that exceeded 20% of its net sales, so there is no risk of concentration of sales.

## **7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%: None.**

## **7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights: As of the printing date of the annual report, there is no such situation.**

### **7.6.12 Litigation or Non-Litigation Events**

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

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

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

### **7.6.13 Other Major Risks:**

#### Risk Management Committee

To ensure the effectiveness, integrity and reasonableness of risk management of Phison and its subsidiaries, to protect shareholders' rights and interests, to achieve sustainable development and to implement corporate governance, the Company established the Risk Management Committee in November 2021 as a functional committee under the Board of Directors, which reports on its operations to the Board of Directors once a year.

The Risk Management Committee is a unit that integrates risk management activities and consists of at least three members with legal, accounting or technology-related professional backgrounds, with one of the members serving as the convener and at least a majority of the members being independent directors, and an executive secretariat.

#### Risk Management Organization Structure and Duties

##### **1. Board of Directors**

Responsible for approving the Law and monitoring the various risks that exist or are potentially present in the Company, and making reasonable resource allocation to ensure effective risk control.

##### **2. Risk Management Committee**

The Risk Management Committee is the unit that integrates risk management activities and consists of at least three members, one of whom serves as the convener, and at least a majority of the members are independent directors, and an executive secretariat is established. Its duties are as follows:

Formulate relevant risk management practices, establish risk management standards, and regularly review the implementation of the Company's risk management mechanism, risk category evaluation and operational refinement.

Execute the risk management decisions made by the Board and regularly review the development, establishment and effectiveness of the Company's overall risk management mechanism.

Approve the risk response strategy and action plan, and require each risk management unit of the Company to effectively identify, measure, monitor and control each risk.

At least one Risk Management Committee meeting will be held annually.

Review and integrate the Company's various risk management reports, and provide timely feedback to the Board of Directors on the implementation of risk management.

### 3. Executive Secretariat

Responsible for implementing and coordinating the Company's risk management activities, including convening meetings of the Risk Management Committee, assisting the Risk Management Committee in formulating risk management policies and procedures, communicating risk information with each operating unit, and collecting and integrating risk management reports from each operating unit, and other matters assigned by the Risk Management Committee.

### 4. Audit Unit

The Company's Corporate Sustainability Management Committee will serve as the audit unit for Risk Management Committee. The auditing unit shall perform audits based on the spirit of independence and shall conduct audits of the Company's risk management-related operations at least once a year and report the audits to the Board of Directors.

### 5. Each Operating Unit

Responsible for the actual implementation of each unit's risk plan, including risk identification, risk analysis, risk assessment, risk response and control, and self-monitoring. Each operating unit shall report the risk management execution status of each type of risk to the Risk Management Committee on a regular basis or when requested by the Risk Management Committee.

## Risk Management Range

The Company shall evaluate the possibility and impact of each risk faced by its daily operation activities and take appropriate countermeasures to continuously improve and reduce corporate risks.

The Company's operational risks can be categorized as operational risks, market risks, operational risks, information security risks, environmental security risks, risks of stable supply of electricity and water resources, risks of statutory infectious diseases, and other risks related to operations. The Company shall establish aggregation and management indicators for each type of risk, which shall be regularly monitored by each operating unit, to ensure that each risk is controlled within a tolerable range.

### Risk Management Committee Members

Position	Name of Directors	Experience (education):
Independent Director	Wen Chiu Chung	M.S. in Accounting, Chung Yuan Christian University Accountant of Grant Thornton Taiwan
Independent Director	Yu Lun Huang	Associate Professor, Department of Electronics Engineering, National Chiao Tung University Secretary-general, Taiwan Open Course Ware Consortium Associate Dean for Academic Affairs, National Yang Ming Chiao Tung University
Deputy Director, Legal Office	Chien Hsun Chiu (Convener)	Master of Laws, University of Houston Attorney, New York, US Deputy Director, Phison Electronics Corp.

#### Implementation Status of the year

The Committee held 1 meeting in 2022, 100% average attendance and reported at the meeting the results of the 2022 implementation of risk management projects on "Climate Change Risk Assessment and Response", "Supply Chain Management", "Information Security Measures" and "Epidemic Prevention Measures".

#### 7.7 Other Major Events: None.



# **Chapter 8**

## **Special Disclosure**

# Chapter 8 Special Disclosure

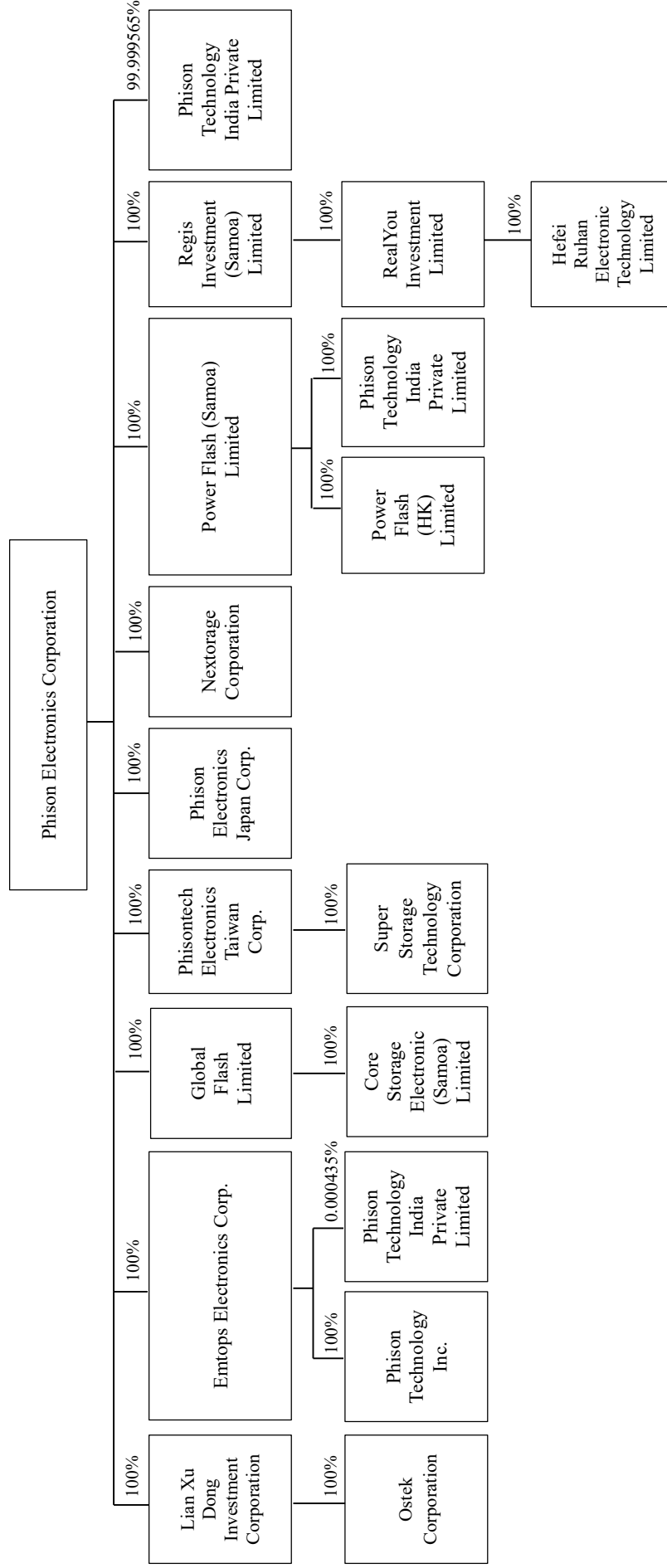
## 8.1 Summary of Affiliated Companies

### 8.1.1 Consolidated business report of affiliated companies

#### 8.1.1.1 Overview of the affiliated companies

##### (1) Organizational Structure of Affiliated Companies

Date: December 31, 2022



(2) This company has no other affiliates under the inference by Article 369.3 of Company Act.

### 8.1.1.2 Basic information of affiliated businesses

Date: December 31, 2022, Unit: NT\$ thousand

Enterprise Name	Date of incorporation	Address	Actual paid-in capital			Main Business or Products	Remark
			Original currency		NT\$		
Lian Xu Dong Investment Corporation	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	650,000	650,000	Investment	Subsidiary
Global Flash Limited	2012.06	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	USD	22,100	726,307	Investment and trade	Subsidiary
Phison Electronics Japan Corp.	2011.02	4th Floor, 4-5-11 Namamugi, Tsurumi-ku, Yokohama City, Kanagawa, Japan	JPY	140,000	41,655	Sales and service office	Subsidiary
Emtops Electronics Corp.	2011.03	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	380,000	380,000	Investment	Subsidiary
Power Flash (Samoa) Limited	2015.07	Portcullis Chambers, P.O. Box 1225, Apia, Samoa	USD	4,800	150,190	Investment and trade	Subsidiary
Regis Investment (Samoa) Limited	2018.01	Portcullis Chambers, P.O. Box 1225, Apia, Samoa	USD	21,900	655,995	Investment	Subsidiary
Phisontech Electronics Taiwan Corp.	2013.05	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	550,000	550,000	Investment and trade	Subsidiary
Nextorage Corporation	2019.10	Kawasaki-eki-mae Tower Riverk 9F, 12-1, Ekimaehoncho, Kawasaki-ku, Kawasaki City, Kanagawa 210-0007 Japan	JPY	300,000	71,850	R&D, design, manufacture and sale of flash memory application products	Subsidiary
Phison Technology India Private Limited	2022.12	LVS Arcade, Madhapur, 71,, Jubilee Enclave, HITEC City, Hyderabad, Hyderabad, Telangana, India	INR	23,000	8,768	Design, R&D, import and export of storage devices and electronic components	Subsidiary
Ostek Corporation [Note 1]	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	9,000	9,000	Manufacture and trade of electronic components	Sub-subsidiary
Core Storage Electronic (Samoa) Limited [Note 2]	2015.04	Maystar Chambers P.O.Box 3269, Apia, Samoa	USD	19,150	636,593	Investment and trade	Sub-subsidiary

Enterprise Name	Date of incorporation	Address	Actual paid-in capital			Main Business or Products	Remark
			Original currency		NT\$		
Super Storage Technology Corporation [Note 3]	2006.03	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	348,426	348,426	Manufacture and trade of electronic components	Sub-subsidiary
Power Flash (HK) Limited [Note 4]	2015.08	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	3,000	98,754	Sale, of electronic products	Sub-subsidiary
RealYou Investment Limited [Note 5]	2018.02	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	21,850	654,726	Investment	Sub-subsidiary
Phison Technology Inc. [Note 6]	2019.7	2526 Qume Drive, Unit 28 San Jose, CA 95131	USD	3,000	90,419	Sales and service office	Sub-subsidiary
Hefei Ruhan Electronic Technology Limited [Note 7]	2018.05	Room 2046, Building D8, Hefei Innovation Industrial Park, 2800 Wangjiang West Road, Hefei High-tech Zone	CNY	40,800	182,825	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	Sub-subsidiary
Power Storage Technology (Shenzhen) Limited [Note 8]	2021.11	30G01, Building A, Building 1, Anhongji Tianyao Square, Daling Community, Minzhi Street, Longhua District, Shenzhen City	CNY	10,000	43,520	Design, R&D, import and export of storage devices and electronic components	Sub-subsidiary

[Note 1] This company is our subsidiary of subsidiary company via Lian Xu Dong Investment Corp.

[Note 2] This company is our subsidiary of subsidiary company via Global Flash Limited.

[Note 3] This company is our subsidiary of subsidiary company via Phisontech Electronics Taiwan Corp.

[Note 4] This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

[Note 5] This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.

[Note 6] This company is our subsidiary of subsidiary company via Emtops Electronics Corp.

[Note 7] This company is our subsidiary of subsidiary company via RealYou Investment Limited.

[Note 8] This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

8.1.1.3 Affiliated companies in a controlling and subordinate relation of the Company with shared shareholder data in compliance with Article 369-3 of Company Act: None.



8.1.1.4 Business types of the affiliated companies. If the business operation is interconnected between the affiliated companies, the mission division shall be illustrated.

(1) Business types of the Company and its affiliated companies:

- ① Investment
- ② Investment and trade
- ③ Manufacture and trade of electronic components
- ④ R&D, design, manufacture and sale of electronic product and technical support service and rendering of related services.

(2) Mission Division of the Affiliates with Interconnected Businesses:

Company	Mission division of the affiliates with interconnected businesses
Phison Electronics Japan Corp.	Customer development and service in Japan.
Ostek Corporation	Testing of the flash memory components.
Super Storage Technology Corporation	Testing of the flash memory components.
Power Storage Technology (Shenzhen) Limited	Customer development and service in Mainland.
Nextorage Corporation	Sales of flash memory peripheral application products.
Phison Technology Inc.	Customer development and customer service in US.

8.1.1.5 Profile of Director, Supervisor and President in the Affiliates and Their Shareholding

December 31, 2022, Unit: share, %

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
Lian Xu Dong Investment Corporation	Director and Supervisor	Phison Electronics Corporation	65,000,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Chee Kong Aw Yong	0	0.00%
	Legal representative director	Boon Keat Ang	0	0.00%
	Legal representative Supervisor	Pi Ying Chiu	0	0.00%
Global Flash Limited	Parent company	Phison Electronics Corporation	22,100,000	100.00%
	Director	Khein Seng Pua	0	0.00%
	Director	Chee Kong Aw Yong	0	0.00%
Phison Electronics Japan Corp.	Parent company	Phison Electronics Corporation	2,000	100.00%
	Director	Tzung Horng Kuang	0	0.00%
	Director	Tanaka Motoji	0	0.00%

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
Emtops Electronics Corporation	Director and Supervisor	Phison Electronics Corporation	38,000,000	100.00%
	Legal representative Chairman	Tzung Horng Kuang	0	0.00%
	Legal representative director	Khein Seng Pua	0	0.00%
	Legal representative director	Chung Hsun Ma	0	0.00%
	Legal representative Supervisor	Zhi Chyang Yu	0	0.00%
Power Flash (Samoa) Limited	Parent company	Phison Electronics Corporation	4,800,000	100.00%
	Legal representative Director	Phison Electronics Corporation	4,800,000	100.00%
	Director	Tzung Horng Kuang	0	0.00%
Regis Investment (Samoa) Limited	Parent company	Phison Electronics Corporation	21,900,000	100.00%
	Legal representative Director	Phison Electronics Corporation	21,900,000	100.00%
Phisontech Electronics Taiwan Corp.	Director and Supervisor	Phison Electronics Corporation	55,000,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Chee Kong Aw Yong	0	0.00%
	Legal representative director	Shu Hui Tsai	0	0.00%
	Legal representative Supervisor	Wee Kuan Gan	0	0.00%
Ostek Corporation	Director and Supervisor	Lian Xu Dong Investment Corporation	900,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Tzung Horng Kuang	0	0.00%
	Legal representative director	Wee Kuan Gan	0	0.00%
	Legal representative Supervisor	Hsiao Chun Peng	0	0.00%
Core Storage Electronic (Samoa) Limited	Parent company	Global Flash Limited	19,150,000	100.00%
	Director	Khein Seng Pua	0	0.00%
	Director	Chee Kong Aw Yong	0	0.00%
Super Storage Technology Corporation	Director and Supervisor	Phisontech Electronics Taiwan Corp.	34,842,595	100.00%
	Legal representative Chairman	Chee Kong Aw Yong	0	0.00%

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
	Legal representative director	Wee Kuan Gan	0	0.00%
	Legal representative director	Te Yi Hsieh	0	0.00%
	Legal representative Supervisor	Chien Cheng Wei	0	0.00%
Power Flash (HK) Limited	Parent company	Power Flash (Samoa) Limited	3,000,000	100.00%
	Director	Shu Hui Tsai	0	0.00%
	Director	Huei Chen Tsai	0	0.00%
RealYou Investment Limited	Parent company	Regis Investment (Samoa) Limited	21,850,000	100.00%
	Director	Yu Chu Chang	0	0.00%
Phison Technology Inc.	Parent company	Emtops Electronics Corporation	3,000,000	100.00%
	Director	Zong Cheng Wu	0	0.00%
Hefei Ruhan Electronic Technology Limited	Parent company	Real You Investment Limited	CNY40,800,000	100.00%
	Executive Director	Kuo Yi Cheng	0	0.00%
	Supervisor	Wan Xin Liao	0	0.00%
Nextorage Corporation	Parent company	Phison Electronics Corporation	12,000	100.00%
	Director	Katsuyuki Honda	0	0.00%
	Director	Tzung Horng Kuang	0	0.00%
Power Storage Technology (Shenzhen) Limited	Director	Tanaka Motoji	0	0.00%
	Parent company	Power Flash (Samoa) Limited	CNY10,000,000	100.00%
	Executive Director	Chi Wei Tsao	0	0.00%
	Supervisor	Chia Pin Su	0	0.00%
Phison Technology India Private Limited	Parent company	Phison Electronics Corporation	2,299,990	100.00%
	Parent company	Emtops Electronics Corporation	10	0.00%
	Director	Sounak Kumar Ray	0	0.00%
	Director	Chiang Han Hsu	0	0.00%
	Director	Ning Hsueh Chang	0	0.00%

### 8.1.1.6 Operation Summary of the Affiliates

December 31, 2022, Unit: NT\$ thousand

Enterprise Name	Capital	Total Assets	Total liabilities	Net Worth	Operating revenue	Operating profit	Net Income (Loss) (after tax)	EPS (NT\$/ after tax)
Lian Xu Dong Investment Corporation	650,000	486,735	150	486,585	12,979	10,777	13,991	0.22
Global Flash Limited	726,307	2,666,489	0	2,666,489	0	(33)	(857,194)	—
Phison Electronics Japan Corp.	41,655	32,741	3,485	29,256	17,899	621	997	—
Emtops Electronics Corporation	380,000	392,559	273	392,286	0	(886)	17,524	0.46
Power Flash (Samoa) Limited	150,190	148,096	0	148,096	0	(136)	2,180	—
Regis Investment (Samoa) Limited	655,995	1,148,118	0	1,148,118	0	(41)	(469,967)	—
Phisontech Electronics Taiwan Corp.	550,000	709,919	2,545	707,374	0	(300)	44,171	0.80
Ostek Corporation	9,000	33,832	6,714	27,118	35,579	(1,869)	(1,853)	(0.21)
Core Storage Electronic(Samoa) Limited	636,593	2,637,022	0	2,637,022	0	(42)	(858,978)	—
Super Storage Technology Corporation	348,426	816,595	267,325	549,270	464,480	9,332	46,237	1.33
Power Flash (HK) Limited	98,754	97,185	46	97,139	0	(101)	1,367	—
RealYou Investment Limited	654,726	1,159,245	138	1,159,107	0	(233)	(470,061)	—
Phison Technology Inc.	90,419	197,547	70,144	127,403	344,621	11,654	14,055	—
Hefei Ruhan Electronic Technology Limited	182,825	91,477	0	91,477	0	(47)	(67,038)	—
Nextorage Corporation.	144,300	984,034	566,677	417,357	2,577,429	167,739	121,487	—
Power Storage Technology (Shenzhen) Limited	43,520	68,099	23,605	44,494	37,288	335	416	—
Phison Technology India Private Limited	8,768	8,533	0	8,533	0	(1)	(1)	—

- 8.1.2 Consolidated financial statement of affiliates:** 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.
- 8.1.3 Report of affiliates:** The Company is not an affiliated company regulated by the Company Act, no such report is prepared.

## 8.2 Private Placement of Securities in the Most Recent Year and as of the Publication Date of the Annual Report:

Date: May 12, 2023

Item	Date of approval by shareholders' meeting: May 24, 2022 Approved quantity: Under 18,000,000 shares					Date of approval by Board of Directors: March 15, 2023 Approved quantity: Under 18,000,000 shares				
Securities under private placement	Common stock					Common stock				
Date of resolution and approved quantity	[Note 1]					[Note 2]				
Basis and rationale for price setting	[Note 1]					[Note 2]				
Selection method of specified parties	The specified parties should meet the requirements in Article 43-6 of Securities and Exchange Act and the Order No. Tai-Tasi-Cheng 0910003455 of FSC and be limited to strategic investors.					The specified parties should meet the requirements in Article 43-6 of Securities and Exchange Act and the Order No. Tai-Tasi-Cheng 0910003455 of FSC and be limited to strategic investors.				
Reasons for private placement	Considering the timeliness and feasibility of the capital market, issuance cost, private placement, as well as the limitation of trading within three years to enforce the long-term partnership, the Company issues new shares through private placement by cash.					Considering the timeliness and feasibility of the capital market, issuance cost, private placement, as well as the limitation of trading within three years to enforce the long-term partnership, the Company issues new shares through private placement by cash.				
Date of payment and completion	N/A					N/A				
Information on contributing parties	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations
	N/A					N/A				
Actual Purchase (or Conversion) Price	N/A					N/A				
Difference Between the Actual Purchase (or Conversion) Price and the Reference Price	N/A					N/A				
Impact of Private Placement on Shareholders' Equity	N/A					N/A				
Use of funds from private placement and progress of proposed plans	N/A					N/A				
Effectiveness of Private Placement	[Note 1]					N/A				

[Note 1] The Board of Directors has decided that this private placement is being canceled on March 15, 2023. This decision will be reported at the 2023 shareholders' meeting.

[Note 2] This private placement has been approved by the Board of Directors on March 15, 2023, and will be discussed at the 2023 shareholders' meeting for approval.

## 8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Year and as of the Publication Date of the Annual Report: None.

## 8.4 Other Necessary Statements: None.

**Chapter 9 Material matters specified by Article 36.3.2 of the Securities and Exchange Act that has a material impact on interests of shareholders or price of securities over the most recent year and as of the publication date of the annual report: None.**

## **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



## **Independent Auditors' Report**

To the Board of Directors of Phison Electronics Corp.:

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

#### **1. Revenue recognition**

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

## 2. Valuation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

## Other Matter

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)

March 15, 2023

#### **Notes to Readers**

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

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

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

Consolidated Balance Sheets

December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2022		December 31, 2021		December 31, 2022		December 31, 2021	
		Amount	%	Amount	%	Amount	%	Amount	%
	<b>Current assets:</b>								
1100	Cash and cash equivalents (note 6(1))	\$ 17,033,769	29	19,040,947	30	\$ -	-	439,216	1
1110	Financial assets at fair value through profit or loss – current (note 6(2))	785,022	1	1,206,954	2	146,323	-	203,044	-
1136	Financial assets at amortized cost – current (notes 6(3) and 8)	40,499	-	568,694	1	5,600,107	9	5,836,376	10
1170	Accounts receivable, net (note 6(5))	6,037,722	10	5,915,737	9	578,866	1	3,200,307	5
1180	Accounts receivable – related parties, net (notes 6(5) and 7)	1,199,073	2	2,813,524	4	8,939,128	15	9,821,146	16
1200	Other receivables (notes 6(6) and 7)	333,902	1	623,912	1	530,960	1	1,223,434	2
1220	Tax assets	3,497	-	2,905	-	46,250	-	24,027	-
130X	Inventories (note 6(7))	20,390,375	34	19,496,534	31	31,050	-	30,947	-
1410	Prepayments	69,271	-	24,967	-	1,726,407	3	1,048,696	2
1479	Other current assets	1,455	-	2,413	-	17,599,091	29	21,827,193	36
	<b>Non-current assets:</b>								
1510	Financial assets at fair value through profit or loss – non-current (note 6(2))	317,347	-	451,569	1	3,442,031	6	3,412,855	5
1517	Financial assets at fair value through other comprehensive income – non-current (note 6(4))	431,697	1	634,757	1	133,882	-	164,689	-
1550	Investments accounted for using the equity method (note 6(8))	3,693,963	6	4,155,042	7	56,206	-	183,177	-
1600	Property, plant and equipment (notes 6(10), 7 and 8)	7,597,761	13	6,650,562	11	85,526	-	16,003	-
1755	Right-of-use assets (note 6(11))	130,076	-	39,276	-	114,798	-	104,897	-
1780	Intangible assets (note 6(12))	375,336	1	314,671	-	926,480	2	4,109	-
1840	Deferred tax assets (note 6(19))	889,157	1	495,193	1	4,758,923	8	3,885,730	5
1900	Other non-current assets (note 9(2))	659,914	1	583,700	1	22,358,014	37	25,712,923	41
		14,095,251	23	13,324,770	22				
	<b>Total assets</b>	<b>\$ 59,989,836</b>	<b>100</b>	<b>63,021,357</b>	<b>100</b>				
	<b>Liabilities and Equity</b>								
	<b>Current liabilities:</b>								
	Short-term borrowings (notes 6(13) and 8)								
	Contract liabilities – current								
	Accounts payable								
	Accounts payable – related parties (note 7)								
	Other payables (note 6(14))								
	Tax payable								
	Lease liabilities – current (note 6(11))								
	Long-term borrowings, current portion (note 6(16))								
	Other current liabilities (notes 6(15), 7 and 9(3))								
	<b>Non-current liabilities:</b>								
	Bonds payable (note 6(17))								
	Long-term borrowings (note 6(16))								
	Deferred tax liabilities (note 6(19))								
	Lease liabilities – non-current (note 6(11))								
	Net defined benefit liabilities (note 6(18))								
	Guarantee deposits received (note 9(3))								
	<b>Total liabilities</b>								
	<b>Equity (notes 6(20) and (21)):</b>								
	Common shares								
	Capital surplus								
	Retained earnings								
	Other equity interest								
	Treasury shares								
	<b>Total equity</b>								
	<b>Total liabilities and equity</b>								
		<b>\$ 59,989,836</b>	<b>100</b>	<b>63,021,357</b>	<b>100</b>				

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income**

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

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

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

See accompanying notes to consolidated financial statements.

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

	Share capital		Retained earnings					Total other equity interest			
								Unrealized gains (losses) on financial assets	measured at fair value through other comprehensive income	Treasury shares	Total equity
	Common shares	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings				
	\$										
<b>Balance at January 1, 2021</b>											
Net profit for the year	-	-	-	-	-	-	22,281,239	8,147,215	-	-	8,147,215
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(283)	(283)	-	-	-
Total comprehensive income (loss) for the year	-	-	-	-	-	-	22,281,239	8,147,215	-	-	8,147,215
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	-	-	-	268,525	-	-	(422,983)	(422,983)	-	-	(154,458)
Share-based payments	-	-	-	281,369	-	-	-	-	-	-	281,369
Due to recognition of equity component of convertible bonds issued	-	-	-	102,369	-	-	-	-	-	-	102,369
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	11,572	11,572	(11,572)	-	-
<b>Balance at December 31, 2021</b>											
Net profit for the year	-	-	-	-	-	-	22,310,098	27,995,974	(143,563)	-	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	-	-	-	-	-	-	27,820,244	33,397,120	(143,563)	-	42,717,707
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	817,193	-	(817,193)	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	-	(4,532,702)	(4,532,702)	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	-	(155,568)	155,568	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	1,012,124	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,061,216)	(2,061,216)
Share-based payments	-	-	-	360,211	-	-	-	-	-	-	360,211
Exercise of employee share options	-	16,005	16,005	359,667	-	-	-	-	-	-	375,672
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	94,932	(94,932)	-	-
<b>Balance at December 31, 2022</b>											
\$	1,970,740	16,005	1,986,745	8,970,438	6,347,501	-	22,605,164	28,952,665	27,271	(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)**

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

(Continued)

See accompanying notes to consolidated financial statements.



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

## Phison Electronics Corp. and subsidiaries

## Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

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

See accompanying notes to consolidated financial statements.

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

**1. Company history**

Phison Electronics Corp. (the “Company”) was incorporated on November 8, 2000, with the approval of the Ministry of Economic Affairs, R.O.C. The major business activities of the Company and its subsidiaries (the “Group”) are the design and manufacturing of flash memory controllers and peripheral system applications. The Company’s shares have been trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

**2. Approval date and procedures of the consolidated financial statements**

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on March 15, 2023.

**3. New standards, amendments and interpretations adopted**

- (1) The impact of the International Financial Reporting Standards ( “IFRSs” ) endorsed by the Financial Supervisory Commission, R.O.C. ( “FSC” ) which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2022:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2023, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

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

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

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IFRS16 “Requirements for Sale and Leaseback Transactions”

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

**4. Summary of significant accounting policies**

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

- (1) Statement of compliance

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

- (2) Basis of preparation

**A. Basis of measurement**

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

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

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

**B. Functional and presentation currency**

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

**(3) Basis of consolidation**

**A. Principles of preparation of the consolidated financial statements**

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

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

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

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

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

B. List of subsidiaries in the consolidated financial statements

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

Name investor	Name of subsidiary	Principal activity	Shareholding (%)		Note
			December 31, 2022	December 31, 2021	
The Company	Lian Xu Dong Investment Corporation	Investment	100	100	
The Company	Phison Electronics Japan Corp.	Sales and service office	100	100	
The Company	Emtops Electronics Corp.	Investment	100	100	
The Company	Phisontech Electronics Taiwan Corp.	Investment and trade	100	100	
The Company	Global Flash Limited	Investment and trade	100	100	
The Company	Power Flash (Samoa) Limited	Investment and trade	100	100	
The Company	Everspeed Technology Limited	Trade of electronic components	-	100	Note 1
The Company	Regis Investment (Samoa) Limited	Investment	100	100	
The Company	Nextorage Corporation	R&D, design, manufacture and sale of flash memory application products	100	49	Note 2
The Company	Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	100	-	Note 3
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100	100	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100	100	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100	100	
Power Flash (Samoa) Limited	Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	100	-	Note 4
Everspeed Technology Limited	Memoryexchange Corporation	Manufacture and sale of flash memory related products	-	-	Note 5

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

Name investor	Name of subsidiary	Principal activity	Shareholding (%)		Note
			December 31, 2022	December 31, 2021	
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100	100	
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	100	100	
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100	100	
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100	100	

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

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

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

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

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

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

**(4) Foreign currencies**

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

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

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

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

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

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

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

An entity shall classify a liability as current when:

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

**(6) Cash and cash equivalents**

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

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

(7) Financial instruments

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

A. Financial assets

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

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

(a) Financial assets measured at amortized cost

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

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

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

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

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



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

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

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

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

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

(d) Impairment of financial assets

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

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

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

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

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

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

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

(e) Derecognition of financial assets

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

**B. Financial liabilities and equity instruments**

(a) Classification of debt or equity

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

(b) Equity instruments

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

(c) Treasury shares

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

(d) Financial liabilities

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

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

(e) Derecognition of financial liabilities

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

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(f) Offsetting of financial assets and liabilities

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

(8) Inventories

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

(9) Investment in associates

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

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

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

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

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

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

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

(10) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Subsequent cost

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

C. Depreciation

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

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

- (a) Land improvements: 7 years
- (b) Building—building cost: 20 to 50 years
- (c) Building—electrical engineering: 20 years
- (d) Testing equipment: 3 to 7 years
- (e) Office equipment: 3 to 7 years

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(f) Mechanical equipment: 1 to 6 years

(g) Other equipment: 2 to 15 years

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

**(11) Leases**

**A. Identifying a lease**

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

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

**B. As a lessee**

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

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

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

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

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

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

C. As a lessor

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

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

(12) Intangible assets

A. Intangible assets acquired separately

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

B. Intangible assets acquired in a business combination

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

C. Derecognition of intangible assets

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

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(13) Impairment of non-financial assets

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

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

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

(14) Revenue recognition

A. Revenue from contracts with customers

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

(a) Sale of goods

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

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

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

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

**(b) Rendering of services**

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

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

**(c) Financing components**

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

**(15) Employee benefits**

**A. Defined contribution plans**

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

**B. Defined benefit plans**

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



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

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

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

**C. Short-term employee benefits**

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

**(16) Share-based payment**

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

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

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

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

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(17) Income taxes

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

A. Current taxes

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

B. Deferred taxes

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

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

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

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

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

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(18) Business combination

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

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

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

(19) Earnings per share

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

(20) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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

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

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

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

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

The Group holds 39.04% of the outstanding shares of HOSIN Global Electronics Co., Ltd. (the investee). However, due to the multiple voting right system, the Group only obtained 27.05% of the voting rights. The remaining 54.89% of voting rights are concentrated within specific shareholders. Thus, the Group still cannot obtain more than half of the total number of the investee's directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Group has significant influence but without control on the investee.

(2) Inventories

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

**6. Description of significant accounts**

(1) Cash and cash equivalent

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Cash	\$ 145	230
Demand deposits and check deposits	11,507,034	13,292,251
Cash equivalents—time deposits	5,526,590	5,748,466
	<b><u>\$ 17,033,769</u></b>	<b><u>19,040,947</u></b>

Please refer to note 6(26) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Financial assets at fair value through profit or loss— current:		
Beneficiary certificates—open-end funds	\$ 110,769	473,978
Domestic listed stock (note)	674,253	728,076
Derivative instruments—convertible bonds (note 6(17))	-	4,900
	<b><u>\$ 785,022</u></b>	<b><u>1,206,954</u></b>

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	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Financial assets at fair value through profit or loss — non-current:		
Domestic private equity funds	\$ 34,444	39,909
Domestic unlisted stocks	174,012	302,867
Foreign unlisted stocks	108,891	108,793
	<b><u>\$ 317,347</u></b>	<b><u>451,569</u></b>

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

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost — current

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Segregated foreign exchange deposit account for Offshore Funds	\$ -	528,235
Pledged time deposits	40,499	40,459
	<b><u>\$ 40,499</u></b>	<b><u>568,694</u></b>

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

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

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

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Domestic unlisted stocks (note)	\$ 235,752	294,433
Foreign unlisted stocks	195,945	340,324
	<b><u>\$ 431,697</u></b>	<b><u>634,757</u></b>

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

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The Group held the abovementioned equity investment for long-term strategic purpose, but rather than for trading purpose. Therefore, those equity investments have been designated as financial assets at fair value through other comprehensive income. None of the financial assets mentioned above were pledge as collateral.

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Accounts receivable	\$ 6,126,356	5,955,927
Accounts receivable—related parties	1,221,183	2,821,043
	7,347,539	8,776,970
Less: loss allowance	(110,744)	(47,709)
Accounts receivable, net	<u><u>\$ 7,236,795</u></u>	<u><u>8,729,261</u></u>

As of January 1, 2021, the ending balance of accounts receivable, net (including related parties) was \$6,017,701 thousand.

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

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

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

	<b>December 31, 2022</b>	
	<b>Gross carrying amount</b>	<b>Weighted-aver age loss rate (%)</b>
Current	\$ 6,344,599	0.31
1~60 days past due	975,376	6.49
121~150 days past due	708	100.00
More than 151 days past due	26,856	100.00
	<u><u>\$ 7,347,539</u></u>	<u><u>110,744</u></u>

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	<b>December 31, 2021</b>		
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate (%)</b>	<b>Loss allowance</b>
Current	\$ 8,373,036	0.21	17,670
1~60 days past due	384,532	4.47	17,192
61~90 days past due	1,145	36.59	419
91~120 days past due	10,521	45.26	4,762
121~150 days past due	518	86.48	448
More than 151 days past due	7,218	100.00	7,218
	<u><b>\$ 8,776,970</b></u>		<u><b>47,709</b></u>

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance, beginning of the period	\$ 47,709	41,109
Impairment losses recognized	63,035	6,600
Balance, end of the period	<u><b>\$ 110,744</b></u>	<u><b>47,709</b></u>

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

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

The outstanding sold accounts receivable at the end of the period were as follows:

(Unit: USD in Thousands)

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

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

<b>December 31, 2021</b>				
<b>Factor</b>	<b>Factor Amount</b>	<b>Amount Recognized in Other Receivables</b>	<b>Range of Handling Fees Rate (%)</b>	<b>Transferring Terms</b>
HSBC Bank (Taiwan) Limited	<b>\$ 1,748</b>	<b>1,528</b>	0.55~0.65	Note 1~4

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

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

Note 3: As of December 31, 2022 and 2021, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$52,651 thousand and \$42,292 thousand, respectively, were recognized under other receivables.

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

(6) Other receivables

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Tax refund receivable	\$ 193,916	470,137
Factored accounts receivable	52,651	42,292
Liquidation refund receivable from investees	-	70,991
Others	87,335	40,492
Less: loss allowance	-	-
	<b>\$ 333,902</b>	<b>623,912</b>

(7) Inventories

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Raw materials	\$ 14,763,313	11,810,664
Work in process	2,427,948	4,647,351
Semi-finished goods	2,972,532	2,902,052
Finished goods	226,582	136,467
	<b>\$ 20,390,375</b>	<b>19,496,534</b>



**Phison Electronics Corp. and subsidiaries**  
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The costs of inventories recognized as costs of goods sold for the years ended December 31, 2022 and 2021 were \$42,923,527 thousand and \$43,402,812 thousand, respectively.

The costs of goods sold for the December 31, 2022 and 2021 included inventory obsolescence loss of \$1,711,889 thousand and \$135,888 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,252,782	3,402,515
EpoStar Electronics (BVI) Corporation	206,796	421,077
Hefei Xinpeng Technology Co., Ltd.	81,685	135,886
ProGrade Digital Inc.	126,981	98,019
Nextorage Corporation (note)	-	74,263
Microtops Design Corporation	25,719	23,282
	<b><u>\$ 3,693,963</u></b>	<b><u>4,155,042</u></b>

Note: Please refer to note 6(9) for related information.

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

<b>Name of Associates</b>	<b>Principal Activity</b>	<b>Main Operating Location/ Registered Country</b>	<b>Ownership interest (%)</b>	
			<b>December 31, 2022</b>	<b>December 31, 2021</b>
HOSIN Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	China	39.04	42.63

The following consolidated financial information of significant associates has been adjusted according to individually prepared IFRS financial statements of these associates to express the adjustment due to the change in fair value when the Group obtained the ownership of the associates and the effect of different accounting policies:

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Current assets	\$ 14,392,735	8,691,933
Non-current assets	4,912,374	5,079,009
Current liabilities	(9,820,783)	(5,280,167)
Non-current liabilities	(1,117,050)	(444,712)
Net assets	<b><u>\$ 8,367,276</u></b>	<b><u>8,046,063</u></b>
	<b>For the years ended December 31,</b>	<b>For the years ended December 31,</b>
	<b>2022</b>	<b>2021</b>
Operating revenue	<b><u>\$ 24,469,891</u></b>	<b><u>16,700,164</u></b>
Net profit (loss)	\$ (3,125,705)	592,721
Other comprehensive income (loss)	211,508	(32,713)
Total comprehensive income (loss)	<b><u>\$ (2,914,197)</u></b>	<b><u>560,008</u></b>
	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Summarized information of the carrying amount of significant associates	<b><u>\$ 3,252,782</u></b>	<b><u>3,402,515</u></b>
	<b>For the years ended December 31,</b>	<b>For the years ended December 31,</b>
	<b>2022</b>	<b>2021</b>
Attributable to the Group:		
Net profit (loss)	\$ (1,276,066)	267,210
Other comprehensive income (loss)	27,143	(39,993)
Total comprehensive income (loss)	<b><u>\$ (1,248,923)</u></b>	<b><u>227,217</u></b>

The Group subscribed 54,095 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of 24.41% ownership (the amount of contribution was CN\$54,095 thousand) in Heifei Core Storage Electronic Limited in February 2021.

Besides the abovementioned stock transfer, the Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2021, therefore, the changes in equity of associate recognized by the Group amounted to \$(145,046) thousand for the year ended December 31, 2021, reversed retained earnings of \$416,037 thousand and recognized in the capital surplus \$270,991 thousand, respectively.

**Phison Electronics Corp. and subsidiaries**  
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The Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2022, therefore, the changes in equity of associate recognized in the capital surplus by the Group amounted to \$1,015,832 thousand for the year ended December 31, 2022.

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Summarized information of the carrying amount of associates that were not individually material	<b>\$ 441,181</b>	<b>752,527</b>
	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Attributable to the Group:		
Net profit (loss)	\$ (43,102)	23,524
Other comprehensive income (loss)	(206,934)	259,762
Total comprehensive income (loss)	<b>\$ (250,036)</b>	<b>283,286</b>

In 2021, the capital reduction of EpoStar Electronics (BVI) Corporation amounting to \$54,457 thousand and the change in percentage of ownership interests in ProGrade Digital, Inc., resulted in the changes in equity of associate amounting to \$(9,412) thousand, including the reversals of capital surplus of \$2,466 thousand and retained earnings of \$6,946 thousand, respectively, to be recognized.

In 2022, the change in percentage of ownership interests in ProGrade Digital, Inc. resulted in the changes in equity of associate, including the reversal of capital surplus amounting to \$3,708 thousand.

C. Pledged

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

(9) Business Combinations

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

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

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

Current assets:	
Cash and cash equivalents	\$ 113,936
Accounts receivable, net	452,438
Other receivables	41,050
Inventories	107,841
Other current assets	801
Non-current assets:	
Property, plant and equipment	36,137
Intangible assets	2,401
Other non-current assets	68,313
Current liabilities:	
Accounts payable	(368,896)
Other payables	(148,709)
Other current liabilities	(1,837)
	<u><u>\$ 303,475</u></u>

B. Net cash outflow of the acquisition of subsidiaries

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

Gain on a bargain purchase from acquisition was as follows:

Consideration transferred	\$ 138,483
Plus: fair value of pre-existing interest in Nextorage	148,703
Less: fair value of identifiable assets	303,475
Gain on a bargain purchase (recognized as other income)	<u><u>\$ (16,289)</u></u>

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

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

(10) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group were as follows:

	<b>Land</b>	<b>Buildings</b>	<b>Mechanical and testing equipment</b>	<b>Office and other equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>						
Balance at January 1, 2022	\$ 1,762,820	2,626,517	1,371,564	274,718	1,982,139	8,017,758
Additions for the period	386,279	273,822	463,689	138,900	253,536	1,516,226
Acquisition through business combination	189	10,841	1,519	23,376	212	36,137
Disposal for the period	-	-	(297,506)	(53,752)	-	(351,258)
Reclassification	-	2,158,507	17,374	12,632	(2,189,389)	(876)
Effect of movements in exchange rates	(3)	(340)	2,997	1,601	(7)	4,248
Balance at December 31, 2022	<b>\$ 2,149,285</b>	<b>5,069,347</b>	<b>1,559,637</b>	<b>397,475</b>	<b>46,491</b>	<b>9,222,235</b>
Balance at January 1, 2021	\$ 1,144,737	2,603,639	1,096,016	222,036	712,397	5,778,825
Additions for the period	618,083	19,844	418,291	85,051	1,269,742	2,411,011
Disposal for the period	-	-	(175,940)	(37,300)	-	(213,240)
Reclassification	-	3,034	35,018	5,452	-	43,504
Effect of movements in exchange rates	-	-	(1,821)	(521)	-	(2,342)
Balance at December 31, 2021	<b>\$ 1,762,820</b>	<b>2,626,517</b>	<b>1,371,564</b>	<b>274,718</b>	<b>1,982,139</b>	<b>8,017,758</b>
<b>Depreciation:</b>						
Balance at January 1, 2022	\$ -	596,723	634,894	135,579	-	1,367,196
Depreciation for the period	-	126,775	388,773	86,112	-	601,660
Disposal for the period	-	-	(294,117)	(52,237)	-	(346,354)
Effect of movements in exchange rates	-	14	672	1,286	-	1,972
Balance at December 31, 2022	<b>\$ -</b>	<b>723,512</b>	<b>730,222</b>	<b>170,740</b>	<b>-</b>	<b>1,624,474</b>
Balance at January 1, 2021	\$ -	518,527	506,588	107,170	-	1,132,285
Depreciation for the period	-	78,196	304,724	65,809	-	448,729
Disposal for the period	-	-	(175,940)	(37,300)	-	(213,240)
Effect of movements in exchange rates	-	-	(478)	(100)	-	(578)
Balance at December 31, 2021	<b>\$ -</b>	<b>596,723</b>	<b>634,894</b>	<b>135,579</b>	<b>-</b>	<b>1,367,196</b>
<b>Carrying amounts:</b>						
Balance at December 31, 2022	<b>\$ 2,149,285</b>	<b>4,345,835</b>	<b>829,415</b>	<b>226,735</b>	<b>46,491</b>	<b>7,597,761</b>
Balance at December 31, 2021	<b>\$ 1,762,820</b>	<b>2,029,794</b>	<b>736,670</b>	<b>139,139</b>	<b>1,982,139</b>	<b>6,650,562</b>
Balance at January 1, 2021	<b>\$ 1,144,737</b>	<b>2,085,112</b>	<b>589,428</b>	<b>114,866</b>	<b>712,397</b>	<b>4,646,540</b>

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

To increase the scale of operations, the Company's Board of Directors resolved on January 17, 2020, to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$1,398,000 thousand. The Company financed the construction with its own funds. In addition, the Company's Board of Directors resolved on November 12, 2020, to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$829,000 thousand. The aforementioned construction project completed and accepted in June 2022.

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On May 27, 2021, the Company's Board of Directors resolved to purchase the land with buildings for the Company to expand operations in the future. The total amount without V.A.T of the purchase was \$607,865 thousand.

On January 21, 2022, the Company's Board of Directors resolved to participate the land auction for acquiring the land located on Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government to set up a compound leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount was \$346,660 thousand.

(11) Lease arrangements

A. Right-of-use assets

The Group leases assets including buildings, transportation equipment and others. The cost and depreciation of right-of-use assets were as follows:

	<b>Buildings</b>	<b>Transportation equipment</b>	<b>Others</b>	<b>Total</b>
Cost:				
Balance at January 1, 2022	\$ 65,480	992	6,574	73,046
Additions for the period	153,465	528	-	153,993
Deduction for the period and others	(40,147)	(224)	(6,574)	(46,945)
Effect of movements in exchange rate	1,210	-	-	1,210
Balance at December 31, 2022	<b>\$ 180,008</b>	<b>1,296</b>	<b>-</b>	<b>181,304</b>
Balance at January 1, 2021	\$ 38,600	2,401	6,574	47,575
Additions for the period	36,470	-	-	36,470
Deduction for the period and others	(9,043)	(1,409)	-	(10,452)
Effect of movements in exchange rate	(547)	-	-	(547)
Balance at December 31, 2021	<b>\$ 65,480</b>	<b>992</b>	<b>6,574</b>	<b>73,046</b>
Depreciation:				
Balance at January 1, 2022	\$ 27,545	473	5,752	33,770
Depreciation for the period	47,884	408	822	49,114
Deduction for the period and others	(25,454)	(224)	(6,574)	(32,252)
Effect of movements in exchange rate	596	-	-	596
Balance at December 31, 2022	<b>\$ 50,571</b>	<b>657</b>	<b>-</b>	<b>51,228</b>

**Phison Electronics Corp. and subsidiaries**  
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	<b>Buildings</b>	<b>Transportation equipment</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2021	\$ 11,431	1,295	2,465	15,191
Depreciation for the period	18,039	587	3,287	21,913
Deduction for the period and others	(1,772)	(1,409)	-	(3,181)
Effect of movements in exchange rate	(153)	-	-	(153)
Balance at December 31, 2021	<u><u>\$ 27,545</u></u>	<u><u>473</u></u>	<u><u>5,752</u></u>	<u><u>33,770</u></u>
Carrying amounts:				
Balance at December 31, 2022	<u><u>\$ 129,437</u></u>	<u><u>639</u></u>	<u><u>-</u></u>	<u><u>130,076</u></u>
Balance at December 31, 2021	<u><u>\$ 37,935</u></u>	<u><u>519</u></u>	<u><u>822</u></u>	<u><u>39,276</u></u>
Balance at January 1, 2021	<u><u>\$ 27,169</u></u>	<u><u>1,106</u></u>	<u><u>4,109</u></u>	<u><u>32,384</u></u>

**B. Lease liabilities**

The carrying amounts of lease liabilities of the Group were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Current	<u><u>\$ 46,250</u></u>	<u><u>24,027</u></u>
Non-current	<u><u>\$ 85,526</u></u>	<u><u>16,003</u></u>

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

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

	<b>For the years ended December 31, 2022</b>	<b>2021</b>
Interest expenses relating to lease liabilities	<u><u>\$ 1,214</u></u>	<u><u>730</u></u>
Expenses relating to short-term lease	<u><u>\$ 9,566</u></u>	<u><u>4,621</u></u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	<u><u>\$ 1,100</u></u>	<u><u>848</u></u>

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

	<b>For the years ended December 31, 2022</b>	<b>2021</b>
Total cash outflow for leases	<u><u>\$ 59,869</u></u>	<u><u>27,591</u></u>

**Phison Electronics Corp. and subsidiaries**  
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C. Other information about leases

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

(12) Intangible assets

The cost and amortization of intangible assets of the Group were as follows:

	<b>Computer software</b>	<b>Technology License Fees</b>	<b>Total</b>
Cost:			
Balance at January 1, 2022	\$ 1,214,130	403,695	1,617,825
Additions for the period	397,030	54,613	451,643
Acquisition through business combination	2,401	-	2,401
Reclassification	2,438	-	2,438
Effects of movements in exchange rates	38	-	38
Balance at December 31, 2022	<b><u>\$ 1,616,037</u></b>	<b><u>458,308</u></b>	<b><u>2,074,345</u></b>
Balance at January 1, 2021	\$ 977,241	367,976	1,345,217
Additions for the period	236,905	35,719	272,624
Effects of movements in exchange rates	(16)	-	(16)
Balance at December 31, 2021	<b><u>\$ 1,214,130</u></b>	<b><u>403,695</u></b>	<b><u>1,617,825</u></b>
Amortization:			
Balance at January 1, 2022	\$ 957,934	345,220	1,303,154
Amortization for the period	339,506	56,288	395,794
Effects of movements in exchange rates	61	-	61
Balance at December 31, 2022	<b><u>\$ 1,297,501</u></b>	<b><u>401,508</u></b>	<b><u>1,699,009</u></b>
Balance at January 1, 2021	\$ 730,411	300,912	1,031,323
Amortization for the period	227,527	44,308	271,835
Effects of movements in exchange rates	(4)	-	(4)
Balance at December 31, 2021	<b><u>\$ 957,934</u></b>	<b><u>345,220</u></b>	<b><u>1,303,154</u></b>
Carrying amounts:			
Balance at December 31, 2022	<b><u>\$ 318,536</u></b>	<b><u>56,800</u></b>	<b><u>375,336</u></b>
Balance at December 31, 2021	<b><u>\$ 256,196</u></b>	<b><u>58,475</u></b>	<b><u>314,671</u></b>
Balance at January 1, 2021	<b><u>\$ 246,830</u></b>	<b><u>67,064</u></b>	<b><u>313,894</u></b>

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



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(13) Short-term borrowings

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Unsecured bank loans	\$ -	409,216
Secured bank loans	-	30,000
	<b>\$ -</b>	<b>439,216</b>
Range of interest rates at the end of period (%)	<b>-</b>	<b>0.50~1.07</b>

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

(14) Other payables

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Salaries and bonus payable	\$ 6,066,671	6,711,819
Dividend payable (note 6(20))	1,970,963	1,970,740
Others	901,494	1,138,587
	<b>\$ 8,939,128</b>	<b>9,821,146</b>

(15) Other current liabilities

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Guarantee deposits received (note 9(3))	\$ 921,300	-
Refund liabilities	620,776	828,962
Payables for purchases of equipment	88,419	100,605
Receipts under custody	87,669	64,036
Others	8,243	55,093
	<b>\$ 1,726,407</b>	<b>1,048,696</b>

(16) Long-term borrowings

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

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	<b>December 31, 2021</b>		
	<b>Rate of interest rates at the end of period (%)</b>	<b>Year of maturity</b>	<b>Amount</b>
Secured bank loans	1.50	January, 2028	\$ 195,636
Less: current portion			<u>(30,947)</u>
Total			<u><b>\$ 164,689</b></u>

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

(17) Bonds payable

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

The details of unsecured convertible bonds were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	<u>(57,969)</u>	<u>(87,145)</u>
Bonds payable	<u><b>\$ 3,442,031</b></u>	<u><b>3,412,855</b></u>
Embedded derivative instruments—call and conversion options, included in financial assets at fair value through profit or loss—current	<u><b>\$ -</b></u>	<u><b>4,900</b></u>
Embedded derivative instruments—Equity component—conversion options, included in capital surplus—stock options	<u><b>\$ 102,369</b></u>	<u><b>102,369</b></u>
	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	<u><b>\$ (4,900)</b></u>	<u><b>2,105</b></u>
Interest expense	<u><b>\$ 29,176</b></u>	<u><b>1,120</b></u>

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The conversion price per share at the time of issuance of NT\$570 is calculated by multiplying the closing price of the Company's ordinary shares traded on Taipei Exchange at one business day before the reference date for determining the conversion price, which is December 9, 2021, of NT\$475 by the conversion premium rate of 120%. The number of convertible shares of the bonds is calculated by dividing the issued face value of the bonds by the conversion price. After the issuance of corporate bonds, the conversion price shall be adjusted in accordance with the article related to anti-dilution in the terms of issuance and conversion. Due to the distribution of cash dividends to shareholders, the conversion price shall be adjusted in accordance with the aforementioned terms. Starting from December 27, 2021, July 4, 2022, and December 19, 2022, the conversion prices were adjusted from NT\$570 to NT\$556.3, NT\$556.3 to NT\$537.3, and NT\$537.3 to NT\$520.6, respectively.

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

(18) Employee benefits

A. Defined benefit plans

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

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Present value of defined benefit obligations	\$ 164,193	149,156
Fair value of plan assets	(49,395)	(44,259)
Net defined benefit liabilities	<b><u>\$ 114,798</u></b>	<b><u>104,897</u></b>

(a) Composition of plan assets

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

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Bank of Taiwan labor pension reserve account balance of the Group's domestic subsidiaries amounted to \$49,395 thousand as of December 31, 2022. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Defined benefit obligation at January 1	\$ 149,156	144,989
Current service cost	3,000	2,656
Current interest cost	1,193	580
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in demographic assumptions	-	240
— Actuarial losses (gains) arising from changes in experience adjustment	28,422	11,385
— Actuarial losses (gains) arising from changes in financial assumptions	(16,862)	(10,694)
Benefits paid	(716)	-
Defined benefit obligation at December 31	<b>\$ 164,193</b>	<b>149,156</b>

(c) Movements of defined benefit plan assets

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Fair value of plan assets at January 1	\$ 44,259	41,461
Interest income	354	166
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	3,204	577
Contribution to the plan	2,294	2,055
Benefits paid	(716)	-
Fair value of plan assets at December 31	<b>\$ 49,395</b>	<b>44,259</b>

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(d) Expenses recognized in profit or loss

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Current service cost	\$ 3,000	2,656
Net interest on the net defined benefit liabilities (assets)	839	414
	<b>\$ 3,839</b>	<b>3,070</b>

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Accumulated amount at January 1	\$ (48,513)	(48,230)
Recognized during the period	(6,685)	(283)
Accumulated amount at December 31	<b>\$ (55,198)</b>	<b>(48,513)</b>

(f) Actuarial assumptions

	<b>December 31,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
Discount rate (%)	1.40	0.80
Future salary increase rate (%)	3.00	3.00

The Group is expecting a contribution of \$2,431 thousand to its defined benefit plans in the following year after the reporting date.

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

(g) Sensitivity analysis

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

	<b>Impact on present value of defined benefit obligations</b>	
	<b>Increase</b>	<b>Decrease</b>
	<b>0.25%</b>	<b>0.25%</b>
December 31, 2022		
Discount rate	\$ (6,465)	6,786
Future salary increase rate	6,248	(5,998)
December 31, 2021		
Discount rate	\$ (6,121)	6,435
Future salary increase rate	5,902	(5,660)

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

There were no changes in the method and assumptions used in calculating the sensitivity analysis for the years of 2022 and 2021.

**B. Defined contribution plans**

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

The pension costs of the Group's domestic subsidiaries under the defined contribution method were \$223,319 thousand and \$155,717 thousand for the years ended December 31, 2022 and 2021, respectively. Payment was made to the Bureau of Labor Insurance.

The pension costs of the Group's overseas subsidiaries under the defined contribution method were \$5,983 thousand and \$1,945 thousand for the years ended December 31, 2022 and 2021, respectively.

**(19) Income tax**

**A. Income tax recognized in profit or loss**

The amounts of income tax expense were as follows:

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Current tax expense		
Current period	\$ 1,266,182	1,682,446
Income tax expense of unappropriated earnings	103,209	169,379
	<u>1,369,391</u>	<u>1,851,825</u>
Deferred tax expense		
Origination and reversal of temporary differences	(473,617)	(261,426)
Income tax expense	<u><b>\$ 895,774</b></u>	<u><b>1,590,399</b></u>

**Phison Electronics Corp. and subsidiaries**  
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Reconciliations of income tax expense and profit before income tax expense were as follows:

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Profit before income tax	<b>\$ 6,296,920</b>	<b>9,737,614</b>
Income tax using the Company's domestic tax rate	\$ 1,259,384	1,947,523
Effect of tax rates in foreign jurisdiction	44,634	93,734
Permanent difference	33,504	(62,322)
Investment tax incentives	(570,717)	(566,219)
Effect of unrecognized deferred tax liabilities	50,798	-
Income tax expense of unappropriated earnings	103,209	169,379
Others	(25,038)	8,304
Income tax expense	<b>\$ 895,774</b>	<b>1,590,399</b>

**B. Income tax recognized in other comprehensive income**

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Remeasurements from defined benefit plans	\$ (1,671)	(71)
Exchange differences on translation of foreign financial statements	6,817	-
	<b>\$ 5,146</b>	<b>(71)</b>

**C. Deferred tax assets and liabilities**

**(a) Unrecognized deferred tax liabilities**

The Group is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2022 and 2021. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Unrecognized deferred tax liabilities	<b>\$ 360,239</b>	<b>411,037</b>

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(b) Recognized deferred tax assets and liabilities

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

		January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	December 31, 2022
Deferred tax assets							
Inventory write-downs	\$	134,074	334,331	-	-	-	468,405
Unrealized exchange losses		133,659	2,403	-	-	-	136,062
Refund liabilities		165,792	(41,637)	-	-	-	124,155
Loss on foreign investment accounted for using the equity method		-	49,825	-	-	-	49,825
Impairment loss on financial assets		25,258	(2,142)	-	-	-	23,116
Net defined benefit liabilities		20,980	308	1,671	-	-	22,959
Others		15,430	(3,259)	-	(1,851)	54,315	64,635
	\$	<u>495,193</u>	<u>339,829</u>	<u>1,671</u>	<u>(1,851)</u>	<u>54,315</u>	<u>889,157</u>
Deferred tax liabilities:							
Gain on foreign investment accounted for using the equity method	\$	183,177	(133,813)	-	-	-	49,364
Exchange differences on translating foreign operations		-	-	6,817	-	-	6,817
Others		-	25	-	-	-	25
	\$	<u>183,177</u>	<u>(133,788)</u>	<u>6,817</u>	<u>-</u>	<u>-</u>	<u>56,206</u>
Deferred tax assets:							
Refund liabilities	\$	98,186	67,606	-	-	-	165,792
Inventory write-downs		106,902	27,172	-	-	-	134,074
Unrealized exchange losses		120,325	13,334	-	-	-	133,659
Impairment loss on financial assets		25,258	-	-	-	-	25,258
Net defined benefit liabilities		20,706	203	71	-	-	20,980
Others		4,583	10,847	-	-	-	15,430
	\$	<u>375,960</u>	<u>119,162</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>495,193</u>
Deferred tax liabilities:							
Share of gains of subsidiaries and associates accounted for using the equity method	\$	<u>325,441</u>	<u>(142,264)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,177</u>

D. Examination and approval

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



**Phison Electronics Corp. and subsidiaries**  
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(20) Equity

A. Common shares

As of December 31, 2022 and 2021, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The issued common shares amounted to \$1,970,740 thousand with par value of NT\$10 per share.

As of December 31, 2022, because the related registration procedures were still in progress, the new common shares arising from the exercise of employee share options amounting to \$16,005 thousand were recognized as advance receipts for share capital.

The reconciliation of number of outstanding shares of the Company for the December 31, 2022 and 2021, respectively were as follows:

(Unit: Shares in Thousands)

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance, beginning of the period	\$ 197,074	197,074
Effect of repurchasing treasury shares	(6,860)	-
Employee share options exercised	1,601	-
Balance, end of the period	<b><u>\$ 191,815</u></b>	<b><u>197,074</u></b>

B. Capital surplus

The details of the Company's capital surplus were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Additional paid-in capital	\$ 6,597,101	6,237,434
Changes in equities of associates accounted for using the equity method	1,280,649	268,525
Difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
Changes in ownership interests in subsidiaries	1,944	1,944
Employee share options	839,390	479,179
Due to recognition of equity component of convertible bonds	102,369	102,369
Expired employee share options	227	227
	<b><u>\$ 8,970,438</u></b>	<b><u>7,238,436</u></b>

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

**C. Retained earnings and dividend policy**

The amendments to the Company's Articles of Incorporation (the "Articles" ) were approved by the Company's shareholders' meeting on July 26, 2021, which stipulated that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

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

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

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

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

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The appropriation of 2022 earnings were as follows:

	<b>Second Half of 2022</b>	<b>First Half of 2022</b>
Resolution date of the Company's Board of Directors	March 15, 2023	July 29, 2022
Cash dividends to shareholders	\$ 865,962	1,970,740
Cash dividends per share (NTD)	4.50	10
Legal reserve	149,748	399,192
Special reserve	216,810	-

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

The appropriation of 2021 earnings was as follows:

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

The appropriation of 2020 earnings was as follows:

	<b>For the years ended December 31, 2020</b>
Resolution date of the Company's shareholders' meeting	July 26, 2021
Cash dividends to shareholders	\$ 4,532,702
Cash dividends per share (NTD)	23
Legal reserve	868,226
Reversal of special reserve	(10,784)

The aforementioned appropriation of 2020 earnings for was consistent with the proposal made by the Board of Directors on March 11, 2021.

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

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D. Treasury shares

On July 15, 2022, the Company's Board of Directors resolved to plan to repurchase 10,000 thousand shares of its issued shares of common shares to its employees at a price not to exceed \$325 per share for the period from July 18 to September 16, 2022, in accordance with the Securities and Exchange Act. Based on the resolution mentioned above, after fully executing, the Company bought back 6,860 thousand treasury shares amounting to \$2,061,216 thousand in total.

E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance at January 1	\$ (143,563)	(37,091)
Foreign exchange differences (net of tax)	170,834	(106,472)
Balance at December 31	<b>\$ 27,271</b>	<b>(143,563)</b>

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance at January 1	\$ 246,847	(128,250)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	(395,996)	386,669
Disposal for the period	(94,932)	(11,572)
Balance at December 31	<b>\$ (244,081)</b>	<b>246,847</b>

(21) Share-based payment

The Company issued employee share options which each unit can be exercised to purchase one share of the Company. The duration of the plan is 3 to 4 years, and the plan was approved by the FSC. As of December 31, 2022, the information related to the employee share options was as follows:

<b>Type</b>	<b>Authorization date</b>	<b>Issue date</b>	<b>Issued units (in thousands)</b>	<b>Grant Period</b>	<b>Exercise price per share (TWD)</b>	<b>Adjusted exercise price per share (TWD)</b>
2022 First employee share options (note)	July 27, 2022	September 7, 2022	6,000	service period between 2~3 years	293.50	284.40
2021 First employee share options (note)	October 4, 2021	November 19, 2021	6,000	service period between 2~3 years	414.50	note

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Type	Authorization date	Issue date	Issued units (in thousands)	Grant Period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
2020 First employee share options	April 10, 2020	October 5, 2020	6,000	service period between 2~2.5 years	262.00	227.70
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	227.70

The estimated fair values of the options granted were calculated at the date of grant using the Black-Scholes option pricing model. The Group recognized compensation cost amounting to \$360,211 thousand and \$281,369 thousand for the December 31, 2022 and 2021, respectively.

Weighted-average assumptions were as follows:

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

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

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Information related to employee share options was as follows:

A. 2022 First employee share options

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

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

B. 2021 First employee share options

<b>Employee share options</b>	<b>For the years ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted-average exercise price (NTD)</b>	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted-average exercise price (NTD)</b>
Outstanding at January 1	5,987	\$ 404.50	-	\$ -
Granted during the period	-	-	6,000	414.50
Exercised during the period	-	-	-	-
Forfeited during the period	(87)	-	(13)	-
Retracted during the period	<u>(5,900)</u>	-	<u>-</u>	-
Outstanding at December 31	<u><b>-</b></u>	-	<u><b>5,987</b></u>	404.50
Exercisable at December 31	<u><b>-</b></u>		<u><b>-</b></u>	

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C. 2020 First employee share options

	For the years ended December 31,			
	2022		2021	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
<b>Employee share options</b>				
Outstanding at January 1	5,782	\$ 243.30	5,835	\$ 262.00
Granted during the period	-	-	-	-
Exercised during the period	(1,127)	227.7~235.0	-	-
Forfeited during the period	(13)	-	(53)	-
Outstanding at December 31	<u>4,642</u>	227.70	<u>5,782</u>	243.30
Exercisable at December 31	<u>1,760</u>		<u>-</u>	

As of December 31, 2022 and 2021, the weighted-average remaining contractual life for outstanding option were 0.75 and 1.75 years, respectively.

D. 2019 Second employee share options

	For the years ended December 31,			
	2022		2021	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
<b>Employee share options</b>				
Outstanding at January 1	1,940	\$ 243.30	1,976	\$ 262.00
Granted during the period	-	-	-	-
Exercised during the period	(457)	227.7~235.0	-	-
Forfeited during the period	(3)	-	(36)	-
Outstanding at December 31	<u>1,480</u>	227.70	<u>1,940</u>	243.30
Exercisable at December 31	<u>512</u>		<u>-</u>	

As of December 31, 2022 and 2021, the weighted-average remaining contractual life for outstanding option, were 0.75 and 1.75 years, respectively.

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(22) Earnings per share

The calculations of basic earnings per share and diluted earnings per share of the Company were as follows:

A. Basic earnings per share

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net profit attributable to ordinary shareholders of the Company	<u><b>\$ 5,401,146</b></u>	<u><b>8,147,215</b></u>
Weighted-average number of shares outstanding during the year (in thousands of shares)	<u><b>194,935</b></u>	<u><b>197,074</b></u>
Basic earnings per share (NTD)	<u><b>\$ 27.71</b></u>	<u><b>41.34</b></u>

B. Diluted earnings per share

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net profit attributable to ordinary shareholders of the Company	\$ 5,401,146	8,147,215
Effect of dilutive potential ordinary shares		
Convertible bonds	<u>19,420</u>	<u>(788)</u>
Net profit attributable to ordinary shareholders of the Company	<u><b>\$ 5,420,566</b></u>	<u><b>8,146,427</b></u>
Weighted average number of shares outstanding during the year (in thousands of shares)	194,935	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	3,137	3,315
Employees' compensation	3,529	2,575
Effect of conversion of convertible bonds	<u>6,409</u>	<u>254</u>
	<u><b>208,010</b></u>	<u><b>203,218</b></u>
Diluted earnings per share (NTD)	<u><b>\$ 26.06</b></u>	<u><b>40.09</b></u>



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(23) Operating revenue

Disaggregation of revenues from contracts with customers were as follows:

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Primary geographical markets:		
Asia	\$ 47,089,940	47,621,861
America	10,588,924	11,094,866
Europe	2,474,827	3,694,956
Australia	102,224	144,146
Others	227	1,363
	<b><u>\$ 60,256,142</u></b>	<b><u>62,557,192</u></b>
Major product categories:		
Flash memory module products	\$ 42,174,860	50,114,825
Controllers	13,907,161	10,379,076
Integrated Circuit	2,050,539	1,842,677
Others	2,123,582	220,614
	<b><u>\$ 60,256,142</u></b>	<b><u>62,557,192</u></b>

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

(24) Employees' compensation and remuneration of directors

The Company accrued its remunerations to employees and directors, at the rates of 8% to 19% and a maximum rate of 1.5%, of the net profit before income tax which yet the remunerations to employees and directors, respectively. The remunerations to employees and directors for the years ended December 31, 2022 and 2021 had been approved during the Company's board meetings held on March 15, 2023 and March 4, 2022, respectively, as follows:

	<b>For the years ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Cash</b>	<b>Share</b>	<b>Cash</b>	<b>Share</b>
Employees' compensation	\$ 1,000,000	-	1,100,000	-
Remuneration of directors	35,000	-	50,000	-

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2021.

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Information on the employees' compensation and remuneration of directors of 2022 and 2021 resolved by the Company's Board of Directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(25) Non-operating income and expenses

A. Interest income

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Interest income from bank deposits	\$ 97,135	37,524
Others	8	22
	<b><u>\$ 97,143</u></b>	<b><u>37,546</u></b>

B. Other income

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Dividend income	\$ 90,937	95,052
Rent income	21,759	20,700
Gain on a bargain purchase (note 6(9))	16,289	-
Others	72,494	40,308
	<b><u>\$ 201,479</u></b>	<b><u>156,060</u></b>

C. Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Gains (Losses) on disposal of subsidiaries or associates accounted for using the equity method (note 6(9))	\$ 30,426	(272)
Net foreign exchange gains (losses)	755,681	(76,326)
Gains (Losses) on financial assets at fair value through profit or loss	(276,636)	266,703
Others	(144)	(2,274)
	<b><u>\$ 509,327</u></b>	<b><u>187,831</u></b>

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D. Finance costs

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Interest on bank loans	\$ 5,271	17,156
Interest on lease liabilities	1,214	730
Interest on convertible bond	29,176	1,120
Others	122	-
	<b>\$ 35,783</b>	<b>19,006</b>

(26) Financial instruments

A. Categories of financial instruments

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,102,369	1,658,523
Financial assets at amortized cost (Note 1)	25,249,286	29,488,182
Financial assets at FVTOCI	431,697	634,757
	<b>\$ 26,783,352</b>	<b>31,781,462</b>
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	<b>\$ 20,572,844</b>	<b>22,909,645</b>

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

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

B. Financial risk management objectives and policies

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

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

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C. Market risk

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

(a) Foreign currency risk

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

(i) Exposure to foreign currency risk

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

	December 31, 2022			December 31, 2021		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	438,421	30.710	13,463,913	482,969	27.680	13,368,578
<u>Non-Monetary items</u>						
CNY	756,458	4.408	3,334,467	815,300	4.340	3,538,401
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	231,543	30.710	7,110,673	283,113	27.680	7,836,557

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk primarily arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, (including related parties), short-term borrowings, and accounts payable (including related parties), that are denominated in USD. A weakening (strengthening) of 5% of the NTD against the USD as of December 31, 2022 and 2021, would have increased or decreased the net profit before income tax by \$317,662 thousand and \$276,601 thousand, respectively. The analysis was performed on the same basis for comparative years.

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(iii) Foreign exchange gains and losses on monetary items

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

<b>For the years ended December 31,</b>	
<b>2022</b>	<b>2021</b>
<b>\$ 755,681</b>	<b>(76,326)</b>

(b) Interest rate risk

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

If interest rates had been 0.25% higher and all other variables were held constant, the Group's net profit before income tax for the years ended December 31, 2022 and 2021 would have increased by \$28,093 thousand and \$33,871 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents, short-term and long-term borrowings.

(c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 10% higher or lower, net profit before income tax for the years ended December 31, 2022 and 2021 would have increased or decreased by \$110,237 thousand and \$165,852 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 10% higher or lower, the other comprehensive income before income tax for the years of 2022 and 2021 would have increased or decreased by \$43,170 thousand and \$63,476 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

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**D. Concentration of credit risk**

**(a) Accounts receivable**

The major customers of the Group are in the electronics industry and the Group usually grants credit limits to customers in accordance with credit policy, therefore, the credit risk of the Group is mainly affected by the electronics industry. However, the Group mostly sells products to customers with good reputation and continuously monitors the financial situation of customers to monitor the significant loss from credit risk. As of December 31, 2022 and 2021, 36% and 40%, respectively, of accounts receivable were from top five customers, so there was no significant concentration of credit risk. In addition, the Group periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

**(b) Cash and cash equivalents**

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

**(c) Receivables and debt securities**

Please refer to note 6(5) for details on the credit risk exposure of accounts receivable. Please refer to note 6(3) for financial assets at amortized cost including segregated foreign exchange deposit account for Offshore Funds and pledged time deposits. Please refer to notes 6(2) and (4) for details on financial assets at fair value through profit and loss and other comprehensive income including listed stocks, unlisted stocks, open-end funds, and private equity funds.

The financial assets mentioned above were with lower credit risk, so a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date.

**E. Liquidity risk**

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

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	<b>Carrying amount</b>	<b>Cash flow of contract</b>	<b>Within 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>
<b>December 31, 2022</b>					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 16,965,881	(16,965,881)	(16,040,071)	(924,728)	(1,082)
Lease liabilities (current and non-current)	131,776	(133,584)	(47,229)	(86,355)	-
Bonds payable	3,442,031	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	164,932	(174,143)	(34,250)	(137,038)	(2,855)
	<b>\$ 20,704,620</b>	<b>(20,773,608)</b>	<b>(16,121,550)</b>	<b>(4,648,121)</b>	<b>(3,937)</b>
<b>December 31, 2021</b>					
Non-derivative financial liabilities					
Non-interest bearing liabilities	18,861,938	(18,861,938)	(18,857,829)	(4,109)	-
Lease liabilities (current and non-current)	40,030	(40,214)	(24,402)	(15,812)	-
Bonds payable	3,412,855	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	195,636	(204,820)	(33,669)	(134,676)	(36,475)
Fixed interest rate liabilities	439,216	(439,799)	(439,799)	-	-
	<b>\$ 22,949,675</b>	<b>(23,046,771)</b>	<b>(19,355,699)</b>	<b>(3,654,597)</b>	<b>(36,475)</b>

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

**F. Fair value of financial instruments**

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

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

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

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

Fair value hierarchy

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

	<b>December 31, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 674,253	-	-	674,253
Domestic unlisted stocks	-	-	174,012	174,012
Foreign unlisted stocks	-	-	108,891	108,891
Domestic private equity funds	-	-	34,444	34,444
Beneficiary certificates — open-end funds	110,769	-	-	110,769
	<b>\$ 785,022</b>	<b>-</b>	<b>317,347</b>	<b>1,102,369</b>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	235,752	235,752
Foreign unlisted stocks	-	-	195,945	195,945
	<b>\$ -</b>	<b>-</b>	<b>431,697</b>	<b>431,697</b>
	<b>December 31, 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 728,076	-	-	728,076
Domestic unlisted stocks	-	-	302,867	302,867
Foreign unlisted stocks	-	-	108,793	108,793
Domestic private equity funds	-	-	39,909	39,909
Beneficiary certificates — open-end funds	473,978	-	-	473,978
Derivative instruments — convertible bonds	-	-	4,900	4,900
	<b>\$ 1,202,054</b>	<b>-</b>	<b>456,469</b>	<b>1,658,523</b>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	294,433	294,433
Foreign unlisted stocks	-	-	340,324	340,324
	<b>\$ -</b>	<b>-</b>	<b>634,757</b>	<b>634,757</b>



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There were no transfers between Levels 1 and 2 for the years ended December 31, 2022 and 2021.

The reconciliations of Level 3 fair value measurements of financial instruments were as follows:

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Private equity funds	Derivative instruments-convertible bonds	Equity instruments	Equity instruments	Total
January 1, 2022	\$ 39,909	4,900	411,660	634,757	1,091,226
Recognized in profit or loss	(5,465)	(4,900)	(125,747)	-	(136,112)
Recognized in other comprehensive income	-	-	-	(181,391)	(181,391)
Additions for the period	-	-	4,265	95,113	99,378
Disposal and proceeds from capital reduction	-	-	(7,275)	(116,782)	(124,057)
December 31, 2022	<u>\$ 34,444</u>	<u>-</u>	<u>282,903</u>	<u>431,697</u>	<u>749,044</u>
January 1, 2021	\$ 42,033	-	395,203	360,304	797,540
Recognized in profit or loss	(2,124)	2,105	58,069	-	58,050
Recognized in other comprehensive income	-	-	-	99,481	99,481
Additions for the period	-	2,795	3,338	174,972	181,105
Disposal and proceeds from capital reduction	-	-	(44,950)	-	(44,950)
December 31, 2021	<u>\$ 39,909</u>	<u>4,900</u>	<u>411,660</u>	<u>634,757</u>	<u>1,091,226</u>

(c) Quantified information on Level 3 used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value mainly include financial assets at fair value through profit or loss—equity investments, derivative financial instruments, private equity funds, and financial assets at fair value through other comprehensive income—equity investments. If the measurement of the fair value requires the use of observable inputs which cannot be objectively observed, the Group will evaluate the most relevant market data carefully for the evaluation item.

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Quantified information of significant unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income—equity investments without an active market	Market approach	<ul style="list-style-type: none"> <li>Discount for lack of marketability (December 31, 2022: 7.69%~30% and December 31, 2021: 15%~28.97%)</li> </ul>	<ul style="list-style-type: none"> <li>The higher the discount for lack of marketability, the lower the fair value</li> </ul>
Financial assets at fair value through other comprehensive income—equity investments without an active market	Income approach	<ul style="list-style-type: none"> <li>Sustainable revenue growth rate (December 31, 2022: 1.6% and December 31, 2021: 2.5%)</li> <li>Weighted-average cost of capital (December 31, 2022: 6.25%~12.11% and December 31, 2021: 7.02%~9.59%)</li> <li>Discount for lack of marketability (December 31, 2022 and December 31, 2021: 15%)</li> <li>Discount for non-controlling interest (December 31, 2022 and December 31, 2021: 15%)</li> </ul>	<ul style="list-style-type: none"> <li>The higher the sustainable revenue growth rate, the higher the fair value</li> <li>The higher the weighted-average cost of capital, the lower the fair value</li> <li>The higher the discount for lack of marketability, the lower the fair value</li> <li>The higher the discount for non-controlling interest, the lower the fair value</li> </ul>
Financial assets at fair value through profit or loss—equity investments without an active market and private equity funds	Asset-based approach	<ul style="list-style-type: none"> <li>Net Asset Value</li> <li>Discount for lack of marketability (December 31, 2022 and December 31, 2021: 10%)</li> <li>Discount for non-controlling interest (December 31, 2022 and December 31, 2021: 10%)</li> </ul>	No applicable

The fair values of derivatives instruments—convertible bonds is estimated by the binary tree convertible bond evaluation model, and the significant unobservable input value used is the stock price volatility. The stock price volatility adopted on December 31, 2022 and 2021, was 38.59% and 43.39%, respectively.

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(27) Capital management

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

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

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

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

The Group's debt-to-equity ratios at December 31, 2022 and 2021, were respectively as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Total liabilities	\$ 22,358,014	25,712,923
Total equity	37,631,822	37,308,434
Debt-to-adjusted-capital ratio (%)	59	69

As of December 31, 2022, there is no change in the method of capital management of the Group.

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

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

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

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

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	January 1, 2021	Cash flows	Foreign exchange movement and others	December 31, 2021
Short-term borrowings	\$ 1,480,480	(1,044,498)	3,234	439,216
Bonds payable	-	3,511,309	(98,454)	3,412,855
Long-term borrowings (including current portion)	226,122	(30,486)	-	195,636
Lease liabilities (current and non-current)	32,632	(21,392)	28,790	40,030
Guarantee deposits received	4,986	(877)	-	4,109
Total liabilities from financing activities	<u>\$ 1,744,220</u>	<u>2,414,056</u>	<u>(66,430)</u>	<u>4,091,846</u>

**7. Related-party transactions**

(1) Names and relationship with related parties

The followings are subsidiaries and related parties that have had transactions with the Group during the periods covered in the consolidated financial statements:

Name of related party	Relationship with the Group
Microtops Design Corporation	Associate
Hosin Global Electronics Co., Ltd. (SZ) (Hosin Global SZ)	Associate
Hosin Global Electronics Co., Ltd. (HK)	Hosin Global SZ's subsidiary
SiliTai Electronics Co., Limited	Hosin Global SZ's subsidiary
Hefei Core Storage Electronic Limited	Hosin Global SZ's subsidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
Hefei Datang Storage Technology Co., Ltd.	Hefei Xinpeng's subsidiary
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Since January 1, 2022, it was no longer an associate and became a subsidiary of the Company
Kioxia Corporation (KIC)	The Company's director
Kioxia Taiwan Corporation	KIC's subsidiary
Kioxia Asia, Limited	KIC's subsidiary
Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	KIC's subsidiary
Toshiba International Procurement HongKong, Ltd.	KIC's associate
Orient Semiconductor Electronics Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Group since then.
Apacer Technology Inc.	The Company is its director

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<u>Name of related party</u>	<u>Relationship with the Group</u>
UD INFO Corp.	Since August 1, 2022, it became a subsidiary of Apacer Technology Inc.
ONE UPON Co. Ltd.	The Company's director is its chairman
LIU, TIAN-PAI	Other related party

(2) Significant transactions with related parties

A. Operating revenues

The amounts of significant sales by the Group to related parties were as follows:

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Associates	5,761,656	7,183,771
Other related parties	3,215,711	2,961,939
	<u><u>\$ 8,977,367</u></u>	<u><u>10,145,710</u></u>

The credit terms to related parties were ranged from 7 days after delivery to EOM 60 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price and credit terms of the Group for related parties and that for the third parties.

B. Purchase of goods and Processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Associates	\$ (3,655)	182,447
Other related parties-Kioxia Taiwan Company	11,413,643	14,676,478
Other related parties	-	247
	<u><u>\$ 11,409,988</u></u>	<u><u>14,859,172</u></u>

(b) Processing costs

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Other related parties	<u><u>\$ 2,071,125</u></u>	<u><u>2,433,741</u></u>

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

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C. Accounts receivable from related parties

<b>Related Party Category / Name</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Associates- Hosin Global Electronics Co., Ltd. (HK)	\$ 235,530	1,614,392
Associates	417,838	553,795
Other related parties	567,815	652,856
	1,221,183	2,821,043
Less: Loss allowance	(22,110)	(7,519)
	<b><u>\$ 1,199,073</u></b>	<b><u>2,813,524</u></b>

The outstanding accounts receivable from related parties are unsecured.

D. Accounts payable to related parties

<b>Related Party Category / Name</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Other related parties-Kioxia Taiwan Company	\$ 578,866	2,764,162
Other related parties	-	436,145
	<b><u>\$ 578,866</u></b>	<b><u>3,200,307</u></b>

E. Other transactions

<b>Account Name</b>	<b>Related Party Category / Name</b>	<b>For the years ended December 31, 2022</b>	<b>2021</b>
Operating costs	Other related parties	<b><u>\$ 3,812</u></b>	<b><u>1,334</u></b>
Operating expenses	Associates	\$ 256,178	277,377
	Other related parties	6,808	11,955
		<b><u>\$ 262,986</u></b>	<b><u>289,332</u></b>
Non-operating incomes	Associates	\$ 1,228	1,405
	Other related parties (note)	44,296	21,781
		<b><u>\$ 45,524</u></b>	<b><u>23,186</u></b>

Note: The related parties distributed \$36,381 thousand and \$91,614 thousand cash dividend to the Group for the years ended December 31, 2022 and 2021, respectively (recognized as dividend income and write-down of investment accounted for using the equity method). As of December 31, 2022 and 2021, all the aforementioned dividends had been fully received.

As of December 31, 2022 and 2021, the receivables arising from abovementioned transactions were \$81 thousand and \$26,512 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$399 thousand and \$54,392 thousand, respectively (recognized as other current liabilities).

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

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

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

(3) Key management personnel compensation

Key management personnel compensation comprised:

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Short-term employee benefits	\$ 442,005	567,236
Post-employment benefits	1,804	1,988
Share-based payments	39,439	86,679
	<b>\$ 483,248</b>	<b>655,903</b>

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

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

**8. Pledged assets**

The carrying amounts of pledged assets were as follows:

<b>Pledged assets</b>	<b>Object</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Property, plant and equipment	As collateral for loans and finance facilities	\$ 517,906	530,694
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	40,499	40,459
		<b>\$ 558,405</b>	<b>571,153</b>

**9. Commitments and contingencies**

(1) Significant commitments

A. The Group's unused letters of credit

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Unused letters of credit	<b>\$ 1,160,000</b>	<b>1,160,000</b>

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

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

December 31, 2022	December 31, 2021
<u>\$ -</u>	<u>373,455</u>

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

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

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

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

(2) Purchase commitment

The Group entered into a long-term purchase agreement of material with a supplier. The relative purchase quantity and price of wafers are specified in the agreement. According to the agreement, the Group has to pay partial guarantee deposit before the appointment date. As of December 31, 2022, the Group has paid US\$18,480 thousand of guarantee deposit (recognized as other non-current assets).

(3) Long-term supply agreement

The Group entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of US\$90,000 thousand as agreed. The Group was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. Based on the agreement, the Group repaid US\$30,000 thousand in the fourth quarter of 2022. As of December 31, 2022, the guarantee deposits received were classified as current liabilities of \$921,300 thousand (recognized as other current liabilities) and non-current liabilities of \$921,300 thousand (recognized as guarantee deposits received) based on the expected repayment period.

**10. Losses due to major disasters: None**

**11. Subsequent events: None**



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

**12. Other**

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

By item	By function	For the year ended December 31,				
		2022			2021	
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses
Employee benefits						
Salary		963,266	7,125,126	8,088,392	567,201	7,198,463
Labor and health insurance		88,433	379,495	467,928	56,630	268,969
Pension		38,606	194,535	233,141	23,525	137,207
Others		49,246	177,789	227,035	40,724	129,650
Depreciation		205,125	445,649	650,774	143,423	327,219
Amortization		2,027	393,767	395,794	563	271,272

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

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

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

**13. Addition disclosures**

- (1) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- A. Loans to other parties: None
- B. Guarantees and endorsements for other parties: None

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

- C. Securities held as of December 31, 2022 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 1.
  - D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
  - E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 2.
  - F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
  - G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 3.
  - H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 4.
  - I. Trading in derivative instruments: Please refer to Notes 6(2).
  - J. Business relationships and significant intercompany transactions: Please refer to Table 5.
- (2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 6.
- (3) Information on investment in Mainland China:
- A. The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 7.
  - B. Limitation on investment in Mainland China: Please refer to Table 7.
  - C. Significant transactions:  
  
The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions" .

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

(4) Major shareholders:

(in units of shares)

Shareholder's Name	Shareholding	Shares	Percentage
Trust Investment Account of KIOXIA Corporation by First Bank		19,821,112	9.97%

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

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

#### 14. Segment information

(1) General information

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

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

(2) Product information

Please refer note 6(23) for the product information for the years ended December 31, 2022 and 2021.

(3) Geographic information

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

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

A. Revenue from external customers:

Please refer to note 6(23) for the information on revenue from external customers for the years of 2022 and 2021.

B. Non-current assets:

<b>Geography</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Asia	\$ 8,065,953	6,962,656
America	37,220	41,853
	<b><u>\$ 8,103,173</u></b>	<b><u>7,004,509</u></b>

(4) Major customer

There was no single customer that accounted for 10% or over of the Group's revenue for the years of 2022 and 2021.

**Phison Electronics Corp. and Subsidiaries**  
**Securities held as of December 31, 2022 (excluding investment in subsidiaries, associates and joint ventures)**  
**December 31, 2022**

Table 1

(Shares in Thousands / Amounts in Thousands)

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Highest Percentage of ownership (%) during the year	Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)		
The Company	<u>Common shares</u>							
	Apacer Technology Inc.	-	Financial assets at fair value through profit or loss – current	12,555	519,760	10.23	11.24	
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	128,753	0.89	0.89	
	Acer Synergy Tech Corp.	-	Same as above	600	25,740	3.00	6.91	
					674,253			
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	5,355	122,259	11.11	11.11	
	Taiwania Capital Buffalo Fund CO., Ltd. (formerly known as Taishan Buffalo Investment CO., Ltd.)	-	Same as above	46,300	36,211	1.08	1.08	
	Innorich Venture Capital Corp.	-	Same as above	3,000	15,542	5.61	5.61	
	JAFECO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	6,496	0.67	0.67	
					180,508			

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
The Company	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at fair value through other comprehensive income — non-current	11,966	150,720	17.16	150,720	17.16	
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	68,769	2.92	68,769	2.92	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	22,829	19.00	22,829	19.00	
	Gomore Inc.	-	Same as above	16,925	11,259	1.86	11,259	3.39	
	H3 Platform, Inc.	-	Same as above	18,400	2,178	12.14	2,178	12.14	
	Gospal Ltd.	-	Same as above	811,857	3,529	3.19	3,529	3.19	
	AppWorks Fund IV L.P.	-	Same as above	31,500	31,500	9.86	31,500	9.86	
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-	0.60	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.66	-	12.66	
	GeoThings, Inc.	-	Same as above	150	-	3.13	-	5.36	
	Ironyun Incorporated	-	Same as above	5,000	-	3.76	-	6.02	
	<u>Private equity funds</u>				290,784				
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss — non-current	6,000	34,444	3.78	34,444	3.81	

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Lian Xu Dong Investment Corporation	<u>Common shares</u>								
	Translink Capital Partners III L.P	-	Financial assets at fair value through profit or loss — non-current	1,500	59,807	1.18	59,807	1.18	
	Translink Capital Partners IV L.P	-	Same as above	930	42,588	0.59	42,588	0.59	
					102,395				
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income — non-current	2,111	436	4.75	436	4.79	
	Translink Capital Partners V, L.P.	-	Same as above	930	27,823	1.93	27,823	2.63	
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	50,000	45,357	3.19	45,357	3.19	
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	24,214	8.20	24,214	11.90	
	New Future III Limited Partnership	-	Same as above	25,756	20,376	5.13	20,376	6.37	
	Omni Media International Incorporation	-	Same as above	1,714	12,309	2.60	12,309	2.60	
	UMBO CV INC. (preference shares)	-	Same as above	1,626	-	2.34	-	2.34	
					130,515				

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Emitops Electronics Corporation	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income — non-current	-	-	19.00	-	19.00	
	<u>Beneficiary certificates — open-end funds</u>								
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss — current	167	30,214	-	30,214	-	
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,133	-	20,133	-	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,141	-	20,141	-	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,142	-	20,142	-	
Super Storage Technology Corporation	Capital Money Market Fund	-	Same as above	1,229	20,139	-	20,139	-	
	<u>Common shares</u>				110,769				
	Power Research Technology Corp.	-	Financial assets at fair value through other comprehensive income — non-current	833	10,398	12.53	10,398	13.88	



**Phison Electronics Corp. and Subsidiaries**  
**Acquisition of Individual Real Estate Properties at Costs of at least NT\$300 Million or 20% of the paid-in capital**  
**For the year ended December 31, 2022**

Table 2

(Amounts in Thousands)

Company Name	Types of Property	Transaction Date	Transaction Amount	Status of Payment	Counter-Party	Nature of Relationships	Prior Transaction of Related Counter-Party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship with the Company	Date of Transfer	Amount			
The Company	5th Factory in Zhunan	January 17, 2020 (Note 1)	1,398,000	Full payment	Engaging others to build on its own land (The contractor is Ruentex Engineering & Construction Co., Ltd.)	-	-	-	-	No applicable	For operational use	None	
	Factory with loading and unloading parking space	November 12, 2020 (Note 1)	829,000	Full payment	Engaging others to build on its own land (The contractor is Ruentex Engineering & Construction Co., Ltd.)	-	-	-	-	No applicable	For operational use	None	
	Land	January 21, 2022 (Note 2)	346,660	Full payment	Miaoli County Government	-	-	-	-	Appraisal report, market value announced, and actual price registration of transactions in the neighborhood	For operational use	None	

Note 1: It was approved by the Board of Directors to engage others to build on the Company's own land and completed and accepted in June 2022.

Note 2: It was approved by the Board of Directors, and the Company won the bid on January 25, 2022.

**Phison Electronics Corp. and Subsidiaries**

**Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock  
For the year ended December 31, 2022**

Table 3

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Kioxia Taiwan Corporation	The subsidiary of KIC	Purchase	11,413,643	32	Net 30 days after monthly closing	None	None	(578,866)	(10)	
	Orient Semiconductor Electronics, Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Group since then.	Processing cost	2,071,125	5	Net 30 days after monthly closing	None	None	-	-	
The Company	Super Storage Technology Corporation	Sub-subsiary	Processing cost	460,701	1	Net 30 days after monthly closing	None	None	(98,846)	(2)	Note 2
	Kioxia Corporation	The Company's director	Sales	(1,640,541)	(3)	Net 60 days after monthly closing	None	None	303,443	4	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(235,261)	-	Net 45~60 days after monthly closing	None	None	42,789	1	

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Apacer Technology Inc.	The Company is its director	Sales	(1,074,199)	(2)	Net 45 days after monthly closing	None	None	133,949	2	
	UDINFO CORP.	Since on August 1, 2022, it became a subsidiary of Apacer Technology Inc.	Sales	(137,330)	-	Net 45 days after monthly closing	None	None	79,687	1	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	Sales	(2,122,032)	(4)	Net 7~45 days after receipt date and Net 45 days after monthly closing	None	None	322,540	5	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(212,385)	-	Net 45 days after receipt date and Net 60 days after receipt date	None	None	67,217	1	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(3,044,956)	(5)	Net 45 days after monthly closing	None	None	226,234	3	
	Nextorage Corporation	Subsidiary	Sales	(525,387)	(1)	Net 60 days after monthly closing	None	None	70,559	1	Note 2
	ProGrade Digital Inc.	Associate	Sales	(351,991)	(1)	Net 30 days after receipt date	None	None	17,052	-	

Note 1: The payment terms and credit terms to related parties were similar to those offered to non-related parties.

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

**Phison Electronics Corp. and Subsidiaries**  
**Receivables from Related Parties Amounting to at least NT\$100 Million or 20% of the Paid-in Capital**  
**December 31, 2022**

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period (Note 1)	Allowance for Bad Debts	Note
					Amount	Action Taken			
The Company	Apacer Technology Inc.	The Company is its director	133,949	6.39	-	-	133,949	430	
	Kioxia Corporation	The Company's director	303,443	5.40	-	-	303,443	974	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	322,540	7.04	187,250	-	322,540	10,127	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	226,234	3.31	176,498	-	224,139	9,296	

Note 1: Information as of February 28, 2023.

**Phison Electronics Corp. and Subsidiaries**  
**Business relationships and significant intercompany transactions**  
**For the year ended December 31, 2022**

Table 5

(Amounts in Thousands)

No.	Name of company	Name of counter-party	Nature of relationship (Note 1)	Intercompany transactions			Percentage of the consolidated net revenue or total assets (%)
				Account name	Amount	Trading terms	
0	The Company	Ostek Corporation Super Storage Technology Corporation	1	Manufacturing cost	35,099	General trading terms	0.06
			1	Processing cost	460,701	General trading terms	0.76
			1	Manufacturing cost	12,929	General trading terms	0.02
		Phison Technology Inc.	1	Accounts payable	98,846	General trading terms	0.16
			1	Right-of-use assets	12,704	General trading terms	0.02
			1	Lease liabilities	12,755	General trading terms	0.02
		Nextorage Corporation	1	Marketing expenses	345,395	General trading terms	0.57
			1	Other payables	35,856	General trading terms	0.06
			1	Sales	525,387	General trading terms	0.87
		Phison Electronics Japan Corp. Power Storage Technology (Shenzhen) Limited	1	Accounts receivable	70,559	General trading terms	0.12
			1	Marketing expenses	17,920	General trading terms	0.03
			1	Marketing expenses	39,729	General trading terms	0.07
			1	Other payables	21,164	General trading terms	0.04

Note 1: 1. Parent Company to its subsidiaries

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

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

Table 6

(Amount in Thousands)

The following is the information on investees for the years ended December 31, 2022 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022		Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)				
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	100.00	(857,194)	(857,194)	Subsidiary and note 4
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	100.00	(469,967)	(469,967)	Subsidiary and note 4
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	58	581,363	55,000,000	100.00	100.00	44,171	44,007	Subsidiary and note 4
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	100.00	13,991	13,991	Subsidiary and note 4
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	30.51	1,065	324	Investee accounted for using the equity method
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	100.00	17,524	17,524	Subsidiary and note 4
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	219,715	81,232	12,000	100.00	100.00	121,487	121,487	Subsidiary, notes 2 and 4
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	100.00	2,180	2,180	Subsidiary and note 4

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022		Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/ Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)				
The Company	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	30.27	69,899	21,158	Investee accounted for using the equity method
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	-	-	100.00	(4,051)	(4,051)	Subsidiary, note 3 and 4
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	100.00	997	997	Subsidiary and note 4
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	8,768	-	2,299,990	100.00	100.00	(1)	(1)	Subsidiary and note 4
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	49.00	4,972	2,437	Investee accounted for using the equity method
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	100.00	(1,853)	Note 1	Sub-subsidiary and note 4
	Phison Technology Inc.	USA	Sales and service office	90,419	90,419	3,000,000	100.00	100.00	14,055	Note 1	Sub-subsidiary and note 4
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	-	-	10	-	-	(1)	Note 1	Subsidiary and note 4
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	100.00	46,237	Note 1	Sub-subsidiary and note 4
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	100.00	(858,978)	Note 1	Sub-subsidiary and note 4

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)	Carrying Value				
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	97,139	100.00	1,367	Note 1	Sub-subsiidiary and note 4
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	1,159,107	100.00	(470,061)	Note 1	Sub-subsiidiary and note 4

Note 1: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.

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

Note 3: The liquidation procedure of Everspeed Technology Limited was completed in July 2022.

Note 4: The aforementioned inter-company transactions have been eliminated in the consolidated financial statements.



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

Table 7

(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 Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	2(1)	-	-	-	-	(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
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	43,520	2(3)	-	Outflow	Inflow	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.

## **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 and Chinese language independent auditors' audit report and parent company only financial statements, the Chinese version shall prevail.

(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)

	Assets	December 31, 2022		December 31, 2021		December 31, 2022		December 31, 2021	
		Amount	%	Amount	%	Amount	%	Amount	%
	<b>Current assets:</b>								
1100	Cash and cash equivalents (note 6(1))	\$ 15,212,590	26	17,675,707	28	\$ -	-	379,216	1
1110	Financial assets at fair value through profit or loss – current (note 6(2))	674,253	1	1,096,736	2	146,323	-	203,044	-
1136	Financial assets at amortized cost – current (notes 6(3) and 8)	40,499	-	568,694	1	5,292,802	9	5,832,288	9
1170	Accounts receivable, net (note 6(5))	5,837,553	10	5,914,769	9	681,993	1	3,299,584	5
1180	Accounts receivable – related parties, net (notes 6(5) and 7)	1,269,856	2	2,813,524	4	8,650,018	15	9,698,997	15
1200	Other receivables (notes 6(6) and 7)	251,506	-	543,778	1	471,859	1	1,196,588	2
130X	Inventories (note 6(7))	20,284,315	35	19,491,118	31	35,145	-	26,271	-
1410	Prepayments	62,288	-	18,213	-	1,776,836	3	1,079,909	2
1479	Other current assets	869	-	1,822	-	17,054,976	29	21,715,897	34
		43,633,729	74	48,124,361	76				
	<b>Non-current assets:</b>								
1510	Financial assets at fair value through profit or loss – non-current (note 6(2))	214,952	-	358,649	1	3,442,031	6	3,412,855	6
1517	Financial assets at fair value through other comprehensive income – non-current (note 6(4))	290,784	-	438,944	1	56,181	-	183,178	-
1550	Investments accounted for using the equity method (note 6(8))	6,363,641	11	6,502,466	10	78,561	-	31,678	-
1600	Property, plant and equipment (notes 6(10) and 7)	6,841,301	12	5,885,272	9	114,798	-	104,897	-
1755	Right-of-use assets (note 6(11))	113,124	-	57,174	-	923,000	2	628	-
1780	Intangible assets (note 6(12))	363,191	1	311,911	1	4,614,571	8	3,733,236	6
1840	Deferred tax assets (note 6(18))	844,136	1	495,176	1	21,669,547	37	25,449,133	40
1900	Other non-current assets (note 9(2))	636,511	1	583,614	1				
		15,667,640	26	14,633,206	24				
	<b>Total assets</b>	\$ 59,301,369	100	62,757,567	100				
	<b>Liabilities and Equity</b>								
	<b>Current liabilities:</b>								
	Short-term borrowings (note 6(13))		2100						
	Contract liabilities – current		2130						
	Accounts payable		2170						
	Accounts payable – related parties (note 7)		2180						
	Other payables (note 6(14))		2200						
	Tax payable		2230						
	Lease liabilities – current (note 6(11))		2280						
	Other current liabilities (notes 6(15), 7 and 9(3))		2399						
	<b>Non-current liabilities:</b>								
	Bonds payable (note 6(16))		2530						
	Deferred tax liabilities (note 6(18))		2570						
	Lease liabilities – non-current (note 6(11))		2580						
	Net defined benefit liabilities (note 6(17))		2640						
	Guarantee deposits received (note 9(3))		2645						
	<b>Total liabilities</b>								
	<b>Equity (notes 6(19) and (20)):</b>								
	Common shares		3100						
	Capital surplus		3200						
	Retained earnings		3300						
	Other equity interest		3400						
	Treasury shares		3500						
	<b>Total equity</b>								
	<b>Total liabilities and equity</b>								
		\$ 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	<b>Operating revenue</b> (notes 6(22) and 7)	\$ 59,571,015	100	62,552,823	100
5000	<b>Operating costs</b> (notes 6(7), (23) and 7)	42,678,103	72	43,504,064	70
	<b>Gross profit from operations</b>	16,892,912	28	19,048,759	30
5910	Unrealized profit on transactions with associates	17,277	-	(54,596)	-
5950	<b>Realized gross profit</b>	16,910,189	28	18,994,163	30
	<b>Operating expenses</b> (notes 6(23) and 7):				
6100	Marketing expenses	1,176,667	2	1,045,844	2
6200	General and administrative expenses	894,714	1	779,391	1
6300	Research and development expenses	8,131,687	14	8,128,771	13
6450	Expected credit loss (note 6(5))	63,035	-	6,600	-
	<b>Total operating expenses</b>	10,266,103	17	9,960,606	16
	<b>Net operating income</b>	6,644,086	11	9,033,557	14
	<b>Non-operating income and expenses:</b>				
7010	Other income (notes 6(9), (24) and 7)	169,715	-	93,092	-
7020	Other gains and losses (notes 6(9) and (24))	473,611	1	152,293	-
7050	Finance costs (note 6(24))	(31,625)	-	(15,359)	-
7100	Interest income (note 6(24))	83,945	-	27,869	-
7060	Shares of profit (loss) of subsidiaries and associates accounted for using the equity method (note 6(8))	(1,107,108)	(2)	297,189	1
		(411,462)	(1)	555,084	1
7900	<b>Profit before tax</b>	6,232,624	10	9,588,641	15
7950	<b>Income tax expenses</b> (note 6(18))	831,478	1	1,441,426	2
8200	<b>Net profit for the year</b>	5,401,146	9	8,147,215	13
8300	<b>Other comprehensive income (loss):</b>				
8310	<b>Items that will not be reclassified subsequently to profit or loss</b>				
8311	Remeasurements of defined benefit plans	(8,356)	-	(354)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(25))	(62,878)	-	134,692	-
8330	Shares of other comprehensive income of subsidiaries and associates accounted for using the equity method	(333,118)	-	251,977	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(18))	1,671	-	71	-
	<b>Total items that will not be reclassified subsequently to profit or loss</b>	(402,681)	-	386,386	-
8360	<b>Items that may be reclassified subsequently to profit or loss</b>				
8361	Exchange differences on translation of foreign financial statements	177,651	-	(106,472)	-
8399	Income tax related to items that may be reclassified subsequently (note 6(18))	(6,817)	-	-	-
	<b>Total items that may be reclassified subsequently to profit or loss</b>	170,834	-	(106,472)	-
8300	<b>Other comprehensive income</b>	(231,847)	-	279,914	-
8500	<b>Total comprehensive income</b>	<u>\$ 5,169,299</u>	<u>9</u>	<u>8,427,129</u>	<u>13</u>
	<b>Earnings per share (New Taiwan Dollars) (note 6(21)):</b>				
9750	Basic earnings per share	<u>\$ 27.71</u>		<u>41.34</u>	
9850	Diluted earnings per share	<u>\$ 26.06</u>		<u>40.09</u>	

See accompanying notes to parent company only financial statements.



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

**Statements of Changes in Equity**

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

	Total other equity interest										
	Unrealized										Treasury shares
	gains (losses) on financial assets measured at fair value through other comprehensive income										
	Share capital			Retained earnings			Exchange differences on translation of foreign financial statements	Total	Income	Total	Total equity
	Common shares	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Special reserve					
	\$ 1,970,740	-	1,970,740	6,586,173	4,306,531	176,125	22,281,239	26,763,895	(128,250)	(165,341)	35,155,467
Balance at January 1, 2021	-	-	-	-	-	-	8,147,215	8,147,215	-	-	8,147,215
Net profit for the year	-	-	-	-	-	-	(283)	(283)	386,669	280,197	279,914
Other comprehensive income (loss) for the year	-	-	-	-	-	-	8,146,932	8,146,932	(106,472)	280,197	8,427,129
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	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)	(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	246,847	103,284	37,308,434
Net profit for the year	-	-	-	-	-	-	5,401,146	5,401,146	-	-	5,401,146
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	(6,685)	(395,996)	(225,162)	(231,847)
Total comprehensive income for the year	-	-	-	-	-	-	5,394,461	5,394,461	(395,996)	(225,162)	5,169,299
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	817,193	-	(817,193)	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	-	(4,532,702)	(4,532,702)	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	-	(155,568)	155,568	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	1,012,124	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,061,216)	(2,061,216)
Share-based payments	-	-	-	360,211	-	-	-	-	-	-	360,211
Exercise of employee share options	-	16,005	16,005	359,667	-	-	-	-	-	-	375,672
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	94,932	(94,932)	(94,932)	-
Balance at December 31, 2022	\$ 1,970,740	16,005	1,986,745	8,970,438	6,347,501	-	22,605,164	28,952,665	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)**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
<b>Profit before income tax</b>	\$ 6,232,624	9,588,641
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	547,323	396,316
Amortization expense	392,465	270,812
Expected credit loss	63,035	6,600
Net loss (gain) on financial assets at fair value through profit or loss	282,398	(239,154)
Finance costs	31,625	15,359
Interest income	(83,945)	(27,869)
Dividend income	(90,937)	(61,691)
Share-based payments	355,849	278,593
Shares of loss (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)	<u>3,873,034</u>	<u>1,024,419</u>
<b>Changes in operating assets and liabilities:</b>		
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	<u>1,545</u>	<u>1,015</u>
Total changes in operating assets and liabilities	<u>(5,108,080)</u>	<u>(4,944,589)</u>
Cash inflow generated from operations	4,997,578	5,668,471
Interest paid	(2,837)	(14,350)
Income taxes paid	<u>(2,037,310)</u>	<u>(590,006)</u>
<b>Net cash flows from operating activities</b>	<u>2,957,431</u>	<u>5,064,115</u>

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

See accompanying notes to parent company only financial statements.

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

**Notes to the Parent Company Only Financial Statements**

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

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**1. Company history**

Phison Electronics Corp. (the “Company”) was incorporated on November 8, 2000, with the approval of the Ministry of Economic Affairs. The major business activities of the Company are the design and manufacturing of flash memory controllers and peripheral system applications. The Company’s shares have been trading on the Taipei Exchange (over the counter exchange in Taiwan) since December 6, 2004.

**2. Approval date and procedures of the financial statements**

The parent company only financial statements were approved and authorized for issue by the Board of Directors on March 15, 2023.

**3. New standards, amendments and interpretations adopted**

- (a) The impact of the International Financial Reporting Standards ( “IFRSs” ) endorsed by the Financial Supervisory Commission, R.O.C. ( “FSC” ) which have already been adopted.

The Company has initially adopted the following new amendments, which do not have a significant impact on its parent company only financial statements, from January 1, 2022:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

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

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2023, would not have a significant impact on its parent company only financial statements:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

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

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- IFRS16 “Requirements for Sale and Leaseback Transactions”

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

**4. Summary of significant accounting policies**

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

**(1) Statement of compliance**

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”).

**(2) Basis of preparation**

**A. Basis of measurement**

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

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

**B. Functional and presentation currency**

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

**(3) Foreign currencies**

**A. Foreign currency transactions**

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries and associates in other countries that use currencies different from the currency of the Company) are translated into the presentation currency, the NTD, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

**B. Foreign operations**

The assets and liabilities of foreign operations are translated to NTD using the exchange rates at the reporting date, which is translated at historical cost rates, and income and expenses, which are translated to NTD at the average rate for the period. Foreign currency differences are recognized in other comprehensive income.

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

**(4) Classification of current and non-current assets and liabilities**

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

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

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

An entity shall classify a liability as current when:

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

**(5) Cash and cash equivalents**

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

**(6) Financial instruments**

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

**A. Financial assets**

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

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

**(a) Financial assets measured at amortized cost**

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

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

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

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

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

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

Dividend income derived from equity investments is recognized in profit or loss on the date which the Company's right to receive payment is established.

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

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



**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

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

**(d) Impairment of financial assets**

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

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

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

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

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

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

**(e) Derecognition of financial assets**

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

**B. Financial liabilities and equity instruments**

**(a) Classification of debt or equity**

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

(b) Equity instruments

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

(c) Treasury shares

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

(d) Financial liabilities

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

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

(e) Derecognition of financial liabilities

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

(f) Offsetting of financial assets and liabilities

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

(7) Inventories

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

(8) Investment in associates

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

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

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

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

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

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

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

(9) Investments in subsidiaries

When preparing the parent company only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, profit, other comprehensive income and equity in the parent company only financial statements are equivalent to those of the profit, other comprehensive income and equity which are contributed to the owners of the parent in the parent company only financial statements.

The changes in the parent's ownership interest in its subsidiaries that do not result in a loss of control are accounted as equity transactions.

(10) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Subsequent cost

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

C. Depreciation

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

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

- (a) Land improvements: 7 years
- (b) Building—building cost: 20 to 50 years
- (c) Building—electrical engineering: 20 years
- (d) Testing equipment: 3 years
- (e) Office equipment: 3 years
- (f) Mechanical equipment: 3 years
- (g) Other equipment: 2 to 5 years

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

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

(11) Leases

A. Identifying a lease

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

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

B. As a lessee

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

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

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

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

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

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

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

C. As a lessor

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

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

(12) Intangible assets

A. Intangible assets acquired separately

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

B. Derecognition of intangible assets

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

(13) Impairment of non-financial assets

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

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**Notes to the Parent Company Only Financial Statements**

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

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

(14) Revenue recognition

A. Revenue from contracts with customers

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

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

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

(c) Financing components

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

(15) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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



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

**C. Short-term employee benefits**

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

**(16) Share-based payment**

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

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

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

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

**(17) Income taxes**

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

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**A. Current taxes**

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

**B. Deferred taxes**

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

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

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

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

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

**(18) Business combination**

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

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

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

(19) Earnings per share

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

(20) Operating segments

The Company has disclosed its operating segment information in the consolidated financial statements; hence, it need not to be disclosed in the parent company only financial statements.

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

In preparing these parent company only financial statements in conformity with the Regulations, the management has made judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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

**Inventories:**

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

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**6. Description of significant accounts**

(1) Cash and cash equivalent

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Cash	\$ 115	200
Demand deposits and check deposits	10,617,941	12,817,945
Cash equivalents — time deposits	4,594,534	4,857,562
	<b><u>\$ 15,212,590</u></b>	<b><u>17,675,707</u></b>

Please refer to note 6(25) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Financial assets at fair value through profit or loss — current :		
Beneficiary certificates — open-end funds	\$ -	363,760
Domestic listed stock (note)	674,253	728,076
Derivative instruments — convertible bonds (note 6(16))	-	4,900
	<b><u>\$ 674,253</u></b>	<b><u>1,096,736</u></b>
Financial assets at fair value through profit or loss — non-current :		
Domestic private equity funds	\$ 34,444	39,909
Domestic unlisted stocks	174,012	302,867
Foreign unlisted stocks	6,496	15,873
	<b><u>\$ 214,952</u></b>	<b><u>358,649</u></b>

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

None of financial assets mentioned above were pledged as collateral.

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(3) Financial assets at amortized cost — current

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Segregated foreign exchange deposit account for Offshore Funds	\$ -	528,235
Pledged time deposits	40,499	40,459
	<b><u>\$ 40,499</u></b>	<b><u>568,694</u></b>

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

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

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

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Domestic unlisted stocks (note)	\$ 123,098	205,867
Foreign unlisted stocks	167,686	233,077
	<b><u>\$ 290,784</u></b>	<b><u>438,944</u></b>

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

The Company held the abovementioned equity investment for long-term strategic purpose, but rather than for trading purpose. Therefore, those equity investments have been designated as financial assets at fair value through other comprehensive income. None of the financial assets were pledge as collateral.

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Accounts receivable	\$ 5,926,187	5,954,959
Accounts receivable — related parties	1,291,966	2,821,043
	7,218,153	8,776,002
Less: loss allowance	(110,744)	(47,709)
Accounts receivable, net	<b><u>\$ 7,107,409</u></b>	<b><u>8,728,293</u></b>

**Phison Electronics Corp.**  
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As of January 1, 2021, the ending balance of accounts receivable, net (including related parties) was \$6,016,174 thousand.

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

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

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

<b>December 31, 2022</b>			
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate (%)</b>	<b>Loss allowance</b>
Current	\$ 6,215,213	0.32	19,831
1~60 days past due	975,376	6.49	63,349
121~150 days past due	708	100.00	708
More than 151 days past due	26,856	100.00	26,856
	<b><u>\$ 7,218,153</u></b>		<b><u>110,744</u></b>
<b>December 31, 2021</b>			
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate (%)</b>	<b>Loss allowance</b>
Current	\$ 8,372,068	0.21	17,670
1~60 days past due	384,532	4.47	17,192
61~90 days past due	1,145	36.59	419
91~120 days past due	10,521	45.26	4,762
121~150 days past due	518	86.48	448
More than 151 days past due	7,218	100.00	7,218
	<b><u>\$ 8,776,002</u></b>		<b><u>47,709</u></b>

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance, beginning of the period	\$ 47,709	41,109
Impairment losses recognized	63,035	6,600
Balance, end of the period	<b>\$ 110,744</b>	<b>47,709</b>

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

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

The outstanding sold accounts receivable at the end of the period were as follows:

(Unit: USD in Thousands)

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

<b>December 31, 2021</b>				
<b>Factor</b>	<b>Factor Amount</b>	<b>Amount Recognized in Other Receivables</b>	<b>Range of Handling Fees Rate (%)</b>	<b>Transferring Terms</b>
HSBC Bank (Taiwan) Limited	<b>\$ 1,748</b>	<b>1,528</b>	0.55~0.65	Note 1~4

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

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

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Note 3: As of December 31, 2022 and 2021, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$52,651 thousand and \$42,292 thousand, respectively, were recognized under other receivables.

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

(6) Other receivables

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Tax refund receivable	\$ 193,830	470,060
Factored accounts receivable	52,651	42,292
Other receivables — related parties (note 7)	201	26,700
Others	4,824	4,726
Less: loss allowance	-	-
	<b><u>\$ 251,506</u></b>	<b><u>543,778</u></b>

(7) Inventories

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Raw materials	\$ 14,757,068	11,809,699
Work in process	2,423,833	4,642,900
Semi-finished goods	2,972,532	2,902,052
Finished goods	130,882	136,467
	<b><u>\$ 20,284,315</u></b>	<b><u>19,491,118</u></b>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2022 and 2021 were \$42,678,103 thousand and \$43,504,064 thousand, respectively.

The costs of goods sold for the years ended December 31, 2022 and 2021 included inventory obsolescence loss of \$1,671,654 thousand and \$135,858 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.



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(8) Investments accounted for using the equity method

Summarizations of the Company investments accounted for using the equity method at the reporting date were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Subsidiaries	\$ 6,004,145	5,885,825
Associates	359,496	616,641
	<b><u>\$ 6,363,641</u></b>	<b><u>6,502,466</u></b>

A. Subsidiaries:

Due to operational strategy, the Company increased its investment in Power Flash (Samoa) Limited's common shares with a total of \$44,750 thousand in 2021.

The Company's subsidiary subscribed 54,095 thousand shares from the capital increase of Hosin Global Electronics Co., Ltd. (SZ) with consideration of residual 24.41% ownership (the amount of contribution was CN\$54,095 thousand) in Hefei Core Storage Electronic Limited in February 2021.

Besides the abovementioned stock transfer, the Company's subsidiary did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2021, therefore, the changes in equity of associate recognized by the Company amounted to \$(145,046) thousand for the year ended December 31, 2021, reversed retained earnings of \$416,037 thousand and recognized in the capital surplus \$270,991 thousand, respectively.

The Company acquired 6,120 common shares of Nextorage Corporation in cash amounting to JPY578,217 thousand. Therefore, since January 1, 2022, Nextorage was no longer a 49%-held investee accounted for using the equity method, and became a 100%-held subsidiary of the Company. Please refer to note 6(9) for related information.

For the purpose of operation, the Company set up Phison Technology India Private Limited in India, in December 2022. The investment amounted to \$8,768 thousand.

The Company's subsidiary did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2022, therefore, the changes in equity of associate recognized in the capital surplus by the Company amounted to \$1,015,832 thousand for the year ended December 31, 2022.

As of December 31, 2022 and 2021, the Company's percentage of ownership interest in HOSIN Global Electronics Co., Ltd. (SZ) was 39.04% and 42.63%, respectively.

Please refer to consolidated financial statements for the years ended December 31, 2022 and 2021 for subsidiaries information.

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B. Associates

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
EpoStar Electronics (BVI) Corporation	\$ 206,796	421,077
ProGrade Digital Inc.	126,981	98,019
Nextorage Corporation (note)	-	74,263
Microtops Design Corporation	25,719	23,282
	<b><u>\$ 359,496</u></b>	<b><u>616,641</u></b>

Note: Please refer to note 6(9) for related information.

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

	<b>For the years ended December 31, 2022</b>	<b>2021</b>
Attributable to the Company:		
Net profit	\$ 23,919	51,782
Other comprehensive income	(214,605)	287,188
Total comprehensive income	<b><u>\$ (190,686)</u></b>	<b><u>338,970</u></b>

In 2021, the capital reduction of EpoStar Electronics (BVI) Corporation amounting to \$54,457 thousand and the change in percentage of ownership interests in ProGrade Digital, Inc., resulted in the changes in equity of associate amounting to \$(9,412) thousand, including the reversals of capital surplus and retained earnings of \$2,466 thousand and \$6,946 thousand, respectively, to be recognized.

In 2022, the change in percentage of ownership interests in ProGrade Digital, Inc. resulted in the changes in equity of associate, including the reversal of capital surplus amounting to \$3,708 thousand.

C. Pledged

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

(9) Business Combinations

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

**Phison Electronics Corp.**  
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A. Acquired identifiable assets and assumed liabilities at the date of acquisition

Current assets:	
Cash and cash equivalents	\$ 113,936
Accounts receivable, net	452,438
Other receivables	41,050
Inventories	107,841
Other current assets	801
Non-current assets:	
Property, plant and equipment	36,137
Intangible assets	2,401
Other non-current assets	68,313
Current liabilities:	
Accounts payable	(368,896)
Other payables	(148,709)
Other current liabilities	(1,837)
	<u><u>\$ 303,475</u></u>

B. Net cash outflow of the acquisition of subsidiaries

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

Gain on a bargain purchase from acquisition was as follows:

Consideration transferred	\$ 138,483
Plus: fair value of pre-existing interest in Nextorage	148,703
Less: fair value of identifiable assets	303,475
Gain on a bargain purchase (recognized as other income)	<u><u>\$ (16,289)</u></u>

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

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(10) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company were as follows:

		<b>Land</b>	<b>Buildings</b>	<b>Mechanical and testing equipment</b>	<b>Office and other equipment</b>	<b>Construction in progress</b>	<b>Total</b>
Cost:							
Balance at January 1, 2022	\$	1,576,890	2,128,231	1,201,694	177,038	1,951,257	7,035,110
Additions for the period		386,160	272,610	430,538	126,833	250,983	1,467,124
Disposal for the period		-	-	(282,903)	(27,050)	-	(309,953)
Reclassification		-	2,158,507	-	1,561	(2,158,507)	1,561
Balance at December 31, 2022	<b>\$</b>	<b>1,963,050</b>	<b>4,559,348</b>	<b>1,349,329</b>	<b>278,382</b>	<b>43,733</b>	<b>8,193,842</b>
Balance at January 1, 2021	\$	958,807	2,105,353	983,815	137,390	712,397	4,897,762
Additions for the period		618,083	19,844	358,799	50,878	1,238,860	2,286,464
Disposal for the period		-	-	(151,416)	(16,386)	-	(167,802)
Reclassification		-	3,034	10,496	5,156	-	18,686
Balance at December 31, 2021	<b>\$</b>	<b>1,576,890</b>	<b>2,128,231</b>	<b>1,201,694</b>	<b>177,038</b>	<b>1,951,257</b>	<b>7,035,110</b>
Depreciation:							
Balance at January 1, 2022	\$	-	482,071	581,497	86,270	-	1,149,838
Depreciation for the period		-	113,308	346,209	51,443	-	510,960
Disposal for the period		-	-	(282,710)	(25,547)	-	(308,257)
Balance at December 31, 2022	<b>\$</b>	<b>-</b>	<b>595,379</b>	<b>644,996</b>	<b>112,166</b>	<b>-</b>	<b>1,352,541</b>
Balance at January 1, 2021	\$	-	416,663	458,732	67,535	-	942,930
Depreciation for the period		-	65,408	274,181	35,121	-	374,710
Disposal for the period		-	-	(151,416)	(16,386)	-	(167,802)
Balance at December 31, 2021	<b>\$</b>	<b>-</b>	<b>482,071</b>	<b>581,497</b>	<b>86,270</b>	<b>-</b>	<b>1,149,838</b>
Carrying amounts:							
Balance at December 31, 2022	<b>\$</b>	<b>1,963,050</b>	<b>3,963,969</b>	<b>704,333</b>	<b>166,216</b>	<b>43,733</b>	<b>6,841,301</b>
Balance at December 31, 2021	<b>\$</b>	<b>1,576,890</b>	<b>1,646,160</b>	<b>620,197</b>	<b>90,768</b>	<b>1,951,257</b>	<b>5,885,272</b>
Balance at January 1, 2021	<b>\$</b>	<b>958,807</b>	<b>1,688,690</b>	<b>525,083</b>	<b>69,855</b>	<b>712,397</b>	<b>3,954,832</b>

None of the property, plant and equipment mentioned above were pledged as collateral.

To increase the scale of operations, the Company's Board of Directors resolved on January 17, 2020, to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$1,398,000 thousand. The Company financed the construction with its own funds. In addition, the Company's Board of Directors resolved on November 12, 2020, to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$829,000 thousand. The aforementioned construction project completed and accepted in June 2022.

On May 27, 2021, the Company's Board of Directors resolved to purchase the land with buildings for the Company to expand operations in the future. The total amount without V.A.T of the purchase was \$607,865 thousand.

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On January 21, 2022, the Company's Board of Directors resolved to participate the land auction for acquiring the land located on Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government to set up a compound leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount was \$346,660 thousand.

(11) Lease arrangements

A. Right-of-use assets

The Company leases assets including buildings, transportation equipment and other assets. The cost and depreciation of right-of-use assets were as follows:

	<b>Buildings</b>	<b>Transportation equipment</b>	<b>Others</b>	<b>Total</b>
Cost:				
Balance at January 1, 2022	\$ 84,461	992	6,574	92,027
Additions for the period	111,693	528	-	112,221
Deduction for the period and others	(47,479)	(224)	(6,574)	(54,277)
Balance at December 31, 2022	<b><u>\$ 148,675</u></b>	<b><u>1,296</u></b>	<b><u>-</u></b>	<b><u>149,971</u></b>
Balance at January 1, 2021	\$ 40,674	2,401	6,574	49,649
Additions for the period	45,900	-	-	45,900
Deduction for the period and others	(2,113)	(1,409)	-	(3,522)
Balance at December 31, 2021	<b><u>\$ 84,461</u></b>	<b><u>992</u></b>	<b><u>6,574</u></b>	<b><u>92,027</u></b>
Depreciation:				
Balance at January 1, 2022	\$ 28,629	472	5,752	34,853
Depreciation for the period	35,132	409	822	36,363
Deduction for the period and others	(27,571)	(224)	(6,574)	(34,369)
Balance at December 31, 2022	<b><u>\$ 36,190</u></b>	<b><u>657</u></b>	<b><u>-</u></b>	<b><u>36,847</u></b>
Balance at January 1, 2021	\$ 12,669	1,294	2,465	16,428
Depreciation for the period	17,732	587	3,287	21,606
Deduction for the period and others	(1,772)	(1,409)	-	(3,181)
Balance at December 31, 2021	<b><u>\$ 28,629</u></b>	<b><u>472</u></b>	<b><u>5,752</u></b>	<b><u>34,853</u></b>
Carrying amounts:				
Balance at December 31, 2022	<b><u>\$ 112,485</u></b>	<b><u>639</u></b>	<b><u>-</u></b>	<b><u>113,124</u></b>
Balance at December 31, 2021	<b><u>\$ 55,832</u></b>	<b><u>520</u></b>	<b><u>822</u></b>	<b><u>57,174</u></b>
Balance at January 1, 2021	<b><u>\$ 28,005</u></b>	<b><u>1,107</u></b>	<b><u>4,109</u></b>	<b><u>33,221</u></b>

**Phison Electronics Corp.**  
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**B. Lease liabilities**

The carrying amounts of lease liabilities of the Company were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Current	<u><b>\$ 35,145</b></u>	<u><b>26,271</b></u>
Non-current	<u><b>\$ 78,561</b></u>	<u><b>31,678</b></u>

For the maturity analysis, please refer to note 6(25) “Financial instruments” .

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

	<b>For the years ended December 31, 2022</b>	<b>2021</b>
Interest expenses relating to lease liabilities	<u><b>\$ 826</b></u>	<u><b>803</b></u>
Expenses relating to short-term lease	<u><b>\$ 4,165</b></u>	<u><b>3,665</b></u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	<u><b>\$ 1,100</b></u>	<u><b>848</b></u>

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

	<b>For the years ended December 31, 2022</b>	<b>2021</b>
Total cash outflow for leases	<u><b>\$ 42,251</b></u>	<u><b>26,414</b></u>

**C. Other information about leases**

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

**(12) Intangible assets**

The cost and amortization of intangible assets of the Company were as follows:

	<b>Computer software</b>	<b>Technology License Fees</b>	<b>Total</b>
Cost:			
Balance at January 1, 2022	\$ 1,209,922	403,695	1,613,617
Additions for the period	389,132	54,613	443,745
Balance at December 31, 2022	<u><b>\$ 1,599,054</b></u>	<u><b>458,308</b></u>	<u><b>2,057,362</b></u>
Balance at January 1, 2021	\$ 973,187	367,976	1,341,163
Additions for the period	236,735	35,719	272,454
Balance at December 31, 2021	<u><b>\$ 1,209,922</b></u>	<u><b>403,695</b></u>	<u><b>1,613,617</b></u>

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	<b>Computer software</b>	<b>Technology License Fees</b>	<b>Total</b>
Amortization:			
Balance at January 1, 2022	\$ 956,486	345,220	1,301,706
Amortization for the period	336,177	56,288	392,465
Balance at December 31, 2022	<b><u>\$ 1,292,663</u></b>	<b><u>401,508</u></b>	<b><u>1,694,171</u></b>
Balance at January 1, 2021	\$ 729,982	300,912	1,030,894
Amortization for the period	226,504	44,308	270,812
Balance at December 31, 2021	<b><u>\$ 956,486</u></b>	<b><u>345,220</u></b>	<b><u>1,301,706</u></b>
Carrying amounts:			
Balance at December 31, 2022	<b><u>\$ 306,391</u></b>	<b><u>56,800</u></b>	<b><u>363,191</u></b>
Balance at December 31, 2021	<b><u>\$ 253,436</u></b>	<b><u>58,475</u></b>	<b><u>311,911</u></b>
Balance at January 1, 2021	<b><u>\$ 243,205</u></b>	<b><u>67,064</u></b>	<b><u>310,269</u></b>

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

(13) Short-term borrowings

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Unsecured loans	<b><u>\$ -</u></b>	<b><u>379,216</u></b>
Range of interest rates at the end of period (%)	<b><u>-</u></b>	<b><u>0.50-0.51</u></b>

(14) Other payables

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Salaries and bonus payable	\$ 5,929,795	6,639,544
Dividend payable (note 6(19))	1,970,740	1,970,740
Others	749,483	1,088,713
	<b><u>\$ 8,650,018</u></b>	<b><u>9,698,997</u></b>

(15) Other current liabilities

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Guarantee deposits received (note 9(3))	\$ 921,300	-
Refund liabilities	620,776	828,962
Payables for purchases of equipment	85,181	96,208
Receipts under custody	83,698	61,664
Others	65,881	93,075
	<b><u>\$ 1,776,836</u></b>	<b><u>1,079,909</u></b>

**Phison Electronics Corp.**  
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(16) Bonds payable

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

The details of unsecured convertible bonds were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	(57,969)	(87,145)
Bonds payable	<b><u>\$ 3,442,031</u></b>	<b><u>3,412,855</u></b>
Embedded derivative instruments – call and conversion options, included in financial assets at fair value through profit or loss–current	<b><u>\$ -</u></b>	<b><u>4,900</u></b>
Embedded derivative instruments –Equity component – conversion options, included in capital surplus– stock options	<b><u>\$ 102,369</u></b>	<b><u>102,369</u></b>
	<b><u>For the years ended December 31,</u></b>	<b><u>2022</u></b>
	<b><u>2021</u></b>	<b><u>2021</u></b>
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	<b><u>\$ (4,900)</u></b>	<b><u>2,105</u></b>
Interest expense	<b><u>\$ 29,176</u></b>	<b><u>1,120</u></b>

The conversion price per share at the time of issuance of NT\$570 is calculated by multiplying the closing price of the Company's ordinary shares traded on Taipei Exchange at one business day before the reference date for determining the conversion price, which is December 9, 2021, of NT\$475 by the conversion premium rate of 120%. The number of convertible shares of the bonds is calculated by dividing the issued face value of the bonds by the conversion price. After the issuance of corporate bonds, the conversion price shall be adjusted in accordance with the article related to anti-dilution in the terms of issuance and conversion. Due to the distribution of cash dividends to shareholders, the conversion price shall be adjusted in accordance with the aforementioned terms. Starting from December 27, 2021, July 4, 2022, and December 19, 2022, the conversion prices were adjusted from NT\$570 to NT\$556.3, NT\$556.3 to NT\$537.3 and NT\$537.3 to NT\$520.6, respectively.

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



**Phison Electronics Corp.**  
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(17) Employee benefits

A. Defined benefit plans

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

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Present value of defined benefit obligations	\$ 164,193	149,156
Fair value of plan assets	(49,395)	(44,259)
Net defined benefit liabilities	<u><b>\$ 114,798</b></u>	<u><b>104,897</b></u>

(a) Composition of plan assets

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

Bank of Taiwan labor pension reserve account balance of the Company amounted to \$49,395 thousand as of December 31, 2022. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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**Notes to the Parent Company Only Financial Statements**

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Defined benefit obligation at January 1	\$ 149,156	144,989
Current service cost	3,000	2,656
Current interest cost	1,193	580
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in demographic assumptions	-	240
— Actuarial losses (gains) arising from changes in experience adjustment	28,422	11,385
— Actuarial losses (gains) arising from changes in financial assumptions	(16,862)	(10,694)
Benefits paid	(716)	-
Defined benefit obligation at December 31	<b>\$ 164,193</b>	<b>149,156</b>

(c) Movements of defined benefit plan assets

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Fair value of plan assets at January 1	\$ 44,259	41,461
Interest income	354	166
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	3,204	577
Contribution to the plan	2,294	2,055
Benefits paid	(716)	-
Fair value of plan assets at December 31	<b>\$ 49,395</b>	<b>44,259</b>

(d) Expenses recognized in profit or loss

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Current service cost	\$ 3,000	2,656
Net interest on the net defined benefit liabilities (assets)	839	414
	<b>\$ 3,839</b>	<b>3,070</b>

**Phison Electronics Corp.**  
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- (e) Remeasurements of net defined benefit liabilities (assets) recognized in other comprehensive income

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Accumulated amount at January 1	\$ (48,513)	(48,230)
Recognized during the period	(6,685)	(283)
Accumulated amount at December 31	<b><u>\$ (55,198)</u></b>	<b><u>(48,513)</u></b>

- (f) Actuarial assumptions

	<b>December 31,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
Discount rate (%)	1.40	0.80
Future salary increase rate (%)	3.00	3.00

The Company is expecting a contribution of \$2,431 thousand to its defined benefit plans in the following year after the reporting date.

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

- (g) Sensitivity analysis

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

	<b>Impact on present value of defined benefit obligations</b>	
	<b>Increase</b>	<b>Decrease</b>
	<b>0.25%</b>	<b>0.25%</b>
December 31, 2022		
Discount rate	\$ (6,465)	6,786
Future salary increase rate	6,248	(5,998)
December 31, 2021		
Discount rate	\$ (6,121)	6,435
Future salary increase rate	5,902	(5,660)

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

There were no changes in the method and assumptions used in calculating the sensitivity analysis for the years of 2022 and 2021.

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B. Defined contribution plans

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

The pension costs of the Company under the defined contribution method were \$211,835 thousand and \$146,042 thousand for 2022 and 2021, respectively. Payment was made to the Bureau of Labor Insurance.

(18) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Current tax expense		
Current period	\$ 1,214,290	1,536,851
Income tax expense of unappropriated earnings	98,291	166,016
	<u>1,312,581</u>	<u>1,702,867</u>
Deferred tax expense		
Origination and reversal of temporary differences	(481,103)	(261,441)
Income tax expense	<u><b>\$ 831,478</b></u>	<u><b>1,441,426</b></u>

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Profit before income tax	<u><b>\$ 6,232,624</b></u>	<u><b>9,588,641</b></u>
Income tax using the Company's domestic tax rate	\$ 1,246,525	1,917,728
Permanent difference	19,548	(83,000)
Investment tax incentives	(569,593)	(566,219)
Effect of unrecognized deferred tax liabilities	50,798	-
Income tax expense of unappropriated earnings	98,291	166,016
Others	(14,091)	6,901
Income tax expense	<u><b>\$ 831,478</b></u>	<u><b>1,441,426</b></u>

**Phison Electronics Corp.**  
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B. Income tax recognized in other comprehensive income

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Remeasurements from defined benefit plans	\$ (1,671)	(71)
Exchange differences on translation of foreign financial statements	6,817	-
	<b>\$ 5,146</b>	<b>(71)</b>

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

The Company is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2022 and 2021. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Unrecognized deferred tax liabilities	<b>\$ 360,239</b>	<b>411,037</b>

(b) Recognized deferred tax assets and liabilities

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

	<b>January 1, 2022</b>	<b>Recognized in profit or loss</b>	<b>Recognized in other comprehensive income</b>	<b>December 31, 2022</b>
Deferred tax assets				
Inventory write-downs	\$ 134,074	334,331	-	468,405
Unrealized exchange losses	133,659	2,403	-	136,062
Refund liabilities	165,792	(41,637)	-	124,155
Loss on foreign investment accounted for using the equity method	-	49,825	-	49,825
Impairment loss on financial assets	25,258	(2,142)	-	23,116
Net defined benefit liabilities	20,980	308	1,671	22,959
Others	15,413	4,201	-	19,614
	<b>\$ 495,176</b>	<b>347,289</b>	<b>1,671</b>	<b>844,136</b>

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	January 1, 2022	Recognized in income statement	Recognized in other comprehensive income	December 31, 2022
Deferred tax liabilities:				
Gain on foreign investment accounted for using the equity method	\$ 183,178	(133,814)	-	49,364
Exchange differences on translating foreign operations	-	-	6,817	6,817
	<u>\$ 183,178</u>	<u>(133,814)</u>	<u>6,817</u>	<u>56,181</u>
	January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2021
Deferred tax assets:				
Refund liabilities	\$ 98,186	67,606	-	165,792
Inventory write-downs	106,902	27,172	-	134,074
Unrealized exchange losses	120,325	13,334	-	133,659
Impairment loss on financial assets	25,258	-	-	25,258
Net defined benefit liabilities	20,706	203	71	20,980
Others	4,550	10,863	-	15,413
	<u>\$ 375,927</u>	<u>119,178</u>	<u>71</u>	<u>495,176</u>
Deferred tax liabilities:				
Share of gains of subsidiaries and associates accounted for using the equity method	<u>\$ 325,441</u>	<u>(142,263)</u>	<u>-</u>	<u>183,178</u>

**D. Examination and approval**

The income tax returns of the Company had been examined and assessed by the tax authority through 2020.

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**Notes to the Parent Company Only Financial Statements**

(19) Equity

A. Common shares

As of December 31, 2022 and 2021, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The issued common shares amounted to \$1,970,740 thousand with par value of NT\$10 per share.

As of December 31, 2022, because the related registration procedures were still in progress, the new common shares arising from the exercise of employee share options amounting to \$16,005 thousand were recognized as advance receipts for share capital.

The reconciliation of number of outstanding shares of the Company for the years ended December 31, 2022 and 2021, respectively were as follows:

(Unit: Shares in Thousands)

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance, beginning of the period	197,074	197,074
Effect of repurchasing treasury shares	(6,860)	-
Employee share options exercised	1,601	-
Balance, end of the period	<b><u>191,815</u></b>	<b><u>197,074</u></b>

B. Capital surplus

The details of the Company's capital surplus were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Additional paid-in capital	\$ 6,597,101	6,237,434
Changes in equities of associates accounted for using the equity method	1,280,649	268,525
Difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
Changes in ownership interests in subsidiaries	1,944	1,944
Employee share options	839,390	479,179
Due to recognition of equity component of convertible bonds	102,369	102,369
Expired employee share options	227	227
	<b><u>\$ 8,970,438</u></b>	<b><u>7,238,436</u></b>

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

C. Retained earnings and dividend policy

The amendments to the Company's Articles of Incorporation (the "Articles" ) were approved by the Company's shareholders' meeting on July 26, 2021, which stipulated that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

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

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

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

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



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The appropriation of 2022 earnings were as follows:

	<b>Second Half of 2022</b>	<b>First Half of 2022</b>
Resolution date of the Company's Board of Directors	March 15, 2023	July 29, 2022
Cash dividends to shareholders	\$ 865,962	1,970,740
Cash dividends per share (NTD)	4.50	10
Legal reserve	149,748	399,192
Special reserve	216,810	-

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

The appropriation of 2021 earnings was as follows:

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

The appropriation of 2020 earnings was as follows:

	<b>For the years ended December 31, 2020</b>
Resolution date of the Company's shareholders' meeting	July 26, 2021
Cash dividends to shareholders	\$ 4,532,702
Cash dividends per share (NTD)	23
Legal reserve	868,226
Reversal of special reserve	(10,784)

The aforementioned appropriation of 2020 earnings was consistent with the proposal made by the Board of Directors on March 11, 2021.

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

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D. Treasury shares

On July 15, 2022, the Company's Board of Directors resolved to plan to repurchase 10,000 thousand shares of its issued shares of common shares to its employees at a price not to exceed \$325 per share for the period from July 18 to September 16, 2022, in accordance with the Securities and Exchange Act. Based on the resolution mentioned above, after fully executing, the Company bought back 6,860 thousand treasury shares amounting to \$2,061,216 thousand in total.

E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance at January 1	\$ (143,563)	(37,091)
Foreign exchange differences (net of tax)	170,834	(106,472)
Balance at December 31	<b>\$ 27,271</b>	<b>(143,563)</b>

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

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance at January 1	\$ 246,847	(128,250)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	(395,996)	386,669
Disposal for the period	(94,932)	(11,572)
Balance at December 31	<b>\$ (244,081)</b>	<b>246,847</b>

(20) Share-based payment

The Company issued employee share options which each unit can be exercised to purchase one share of the Company. The duration of the plan is 3 to 4 years, and the plan was approved by the FSC. As of December 31, 2022, the information related to the employee share options was as follows:

Type	Authorization date	Issue date	Issued units (in thousands)	Grant Period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
2022 First employee share options (note)	July 27, 2022	September 7, 2022	6,000	service period between 2~3 years	293.50	284.40

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Type	Authorization date	Issue date	Issued units (in thousands)	Grant Period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD) note
2021 First employee share options (note)	October 4, 2021	November 19, 2021	6,000	service period between 2~3 years	414.50	
2020 First employee share options	April 10, 2020	October 5, 2020	6,000	service period between 2~2.5 years	262.00	227.70
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	227.70

The estimated fair values of the options granted were calculated at the date of grant using the Black-Scholes option pricing model. The Company recognized compensation cost amounting to \$355,849 thousand and \$278,593 thousand for the years ended December 31, 2022 and 2021, respectively. Furthermore, compensation costs recognized by the Company's subsidiaries for the years of 2022 and 2021, were \$4,362 thousand and \$2,776 thousand, respectively.

Weighted-average assumptions were as follows:

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

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

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Information related to employee share options was as follows:

A. 2022 First employee share options

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

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

B. 2021 First employee share options

<b>Employee share options</b>	<b>For the years ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted-average exercise price (NTD)</b>	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted-average exercise price (NTD)</b>
Outstanding at January 1	5,987	\$ 404.50	-	\$ -
Granted during the period	-	-	6,000	414.50
Exercised during the period	-	-	-	-
Forfeited during the period	(87)	-	(13)	-
Retracted during the period	<u>(5,900)</u>	-	<u>-</u>	-
Outstanding at December 31	<u><b>-</b></u>	-	<u><b>5,987</b></u>	404.50
Exercisable at December 31	<u><b>-</b></u>		<u><b>-</b></u>	

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C. 2020 First employee share options

	For the years ended December 31,			
	2022		2021	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
<b>Employee share options</b>				
Outstanding at January 1	5,782	\$ 243.30	5,835	\$ 262.00
Granted during the period	-	-	-	-
Exercised during the period	(1,127)	227.7~235.0	-	-
Forfeited during the period	(13)	-	(53)	-
Outstanding at December 31	<u>4,642</u>	227.70	<u>5,782</u>	243.30
Exercisable at December 31	<u>1,760</u>		<u>-</u>	

As of December 31, 2022 and 2021, the weighted-average remaining contractual life for outstanding option were 0.75 and 1.75 years, respectively.

D. 2019 Second employee share options

	For the years ended December 31,			
	2022		2021	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
<b>Employee share options</b>				
Outstanding at January 1	1,940	\$ 243.30	1,976	\$ 262.00
Granted during the period	-	-	-	-
Exercised during the period	(457)	227.7~235.0	-	-
Forfeited during the period	(3)	-	(36)	-
Outstanding at December 31	<u>1,480</u>	227.70	<u>1,940</u>	243.30
Exercisable at December 31	<u>512</u>		<u>-</u>	

As of December 31, 2022 and 2021, the weighted-average remaining contractual life for outstanding option, were 0.75 and 1.75 years, respectively.

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(21) Earnings per share

The calculations of basic earnings per share and diluted earnings per share of the Company were as follows:

A. Basic earnings per share

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net profit attributable to ordinary shareholders of the Company	<u><b>\$ 5,401,146</b></u>	<u><b>8,147,215</b></u>
Weighted-average number of shares outstanding during the year (in thousands of shares)	<u><b>194,935</b></u>	<u><b>197,074</b></u>
Basic earnings per share (NTD)	<u><b>\$ 27.71</b></u>	<u><b>41.34</b></u>

B. Diluted earnings per share

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net profit attributable to ordinary shareholders of the Company	\$ 5,401,146	8,147,215
Effect of dilutive potential ordinary shares		
Convertible bonds	<u>19,420</u>	<u>(788)</u>
Net profit attributable to ordinary shareholders of the Company	<u><b>\$ 5,420,566</b></u>	<u><b>8,146,427</b></u>
Weighted average number of shares outstanding during the year (in thousands of shares)	194,935	197,074
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	3,137	3,315
Employees' compensation	3,529	2,575
Effect of conversion of convertible bonds	<u>6,409</u>	<u>254</u>
	<u><b>208,010</b></u>	<u><b>203,218</b></u>
Diluted earnings per share (NTD)	<u><b>\$ 26.06</b></u>	<u><b>40.09</b></u>

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(22) Operating revenue

Disaggregation of revenues from contracts with customers were as follows:

		<b>For the years ended December 31,</b>	
		<b>2022</b>	<b>2021</b>
Primary geographical markets			
Asia	\$	46,404,813	47,617,492
America		10,588,924	11,094,866
Europe		2,474,827	3,694,956
Australia		102,224	144,146
Others		227	1,363
		<b>\$ 59,571,015</b>	<b>62,552,823</b>
Major product categories			
Flash memory module products	\$	41,916,049	50,114,399
Controllers		13,907,161	9,347,429
Integrated Circuit		2,050,788	1,520,615
Others		1,697,017	1,570,380
		<b>\$ 59,571,015</b>	<b>62,552,823</b>

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

(23) Employees' compensation and remuneration of directors

The Company accrued its remunerations to employees and directors, at the rates of 8% to 19% and a maximum rate of 1.5%, of the net profit before income tax which yet the remunerations to employees and directors, respectively. The remunerations to employees and directors for the years ended December 31, 2022 and 2021 had been approved during the Company's board meetings held on March 15, 2023 and March 4, 2022, respectively, as follows:

		<b>For the years ended December 31,</b>			
		<b>2022</b>		<b>2021</b>	
		<b>Cash</b>	<b>Share</b>	<b>Cash</b>	<b>Share</b>
Employees' compensation	\$	1,000,000	-	1,100,000	-
Remuneration of directors		35,000	-	50,000	-

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2021.

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Information on the employees' compensation and remuneration of directors of 2022 and 2021 resolved by the Company's Board of Directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(24) Non-operating income and expenses

A. Interest income

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Interest income from bank deposits	\$ 83,944	27,851
Others	1	18
	<b>\$ 83,945</b>	<b>27,869</b>

B. Other income

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Rent income	\$ 3,111	2,766
Dividend income	90,937	61,691
Gain on a bargain purchase (note 6(9))	16,289	-
Others	59,378	28,635
	<b>\$ 169,715</b>	<b>93,092</b>

C. Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Gains (Losses) on financial assets at fair value through profit or loss	\$ (282,398)	239,154
Gain on disposal of investments accounted for using the equity method (note 6(9))	30,426	-
Net foreign exchange gains (losses)	726,667	(84,587)
Others	(1,084)	(2,274)
	<b>\$ 473,611</b>	<b>152,293</b>



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D. Finance costs

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Interest on bank loans	\$ 1,623	13,436
Interest on lease liabilities	826	803
Interest on convertible bond	29,176	1,120
	<b>\$ 31,625</b>	<b>15,359</b>

(25) Financial instruments

A. Categories of financial instruments

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 889,205	1,455,385
Financial assets at amortized cost (Note 1)	23,200,161	28,041,754
Financial assets at FVTOCI	290,784	438,944
	<b>\$ 24,380,150</b>	<b>29,936,083</b>
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	<b>\$ 19,911,144</b>	<b>22,623,568</b>

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

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

B. Financial risk management objectives and policies

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

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

C. Market risk

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

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(a) Foreign currency risk

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

(i) Exposure to foreign currency risk

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

	December 31, 2022			December 31, 2021		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	417,606	30.710	12,824,683	477,159	27.680	13,207,749
<u>Non-Monetary items</u>						
JPY	1,925,056	0.232	446,613	429,398	0.241	103,485
USD	4,135	30.710	126,981	3,541	27.680	98,019
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	224,194	30.710	6,884,994	304,481	27.680	8,428,022

(ii) Sensitivity analysis

The Company's exposure to foreign currency risk primarily arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, (including related parties), short-term borrowings, and accounts payable (including related parties), that are denominated in USD. A weakening (strengthening) of 5% of the NTD against the USD as of December 31, 2022 and 2021, would have increased or decreased the net profit before income tax by \$296,984 thousand and \$238,986 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

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

<u>For the years ended December 31,</u>	
<u>2022</u>	<u>2021</u>
<u>\$ 726,667</u>	<u>(84,587)</u>

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(b) Interest rate risk

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

If interest rates had been 0.25% higher and all other variables were held constant, the Company's net profit before income tax for the years of 2022 and 2021 would have increased by \$26,545 thousand and \$33,365 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents and short-term borrowings.

(c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 10% higher or lower, net profit before income tax for the years of 2022 and 2021 would have increased or decreased by \$88,921 thousand and \$145,539 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 10% higher or lower, the other comprehensive income before income tax for the years of 2022 and 2021 would have increased or decreased by \$29,078 thousand and \$43,894 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

D. Concentration of credit risk

(a) Accounts receivable

The major customers of the Company are in the electronics industry and the Company usually grants credit limits to customers in accordance with credit policy, therefore, the credit risk of the Company is mainly affected by the electronics industry. However, the Company mostly sells products to customers with good reputation and continuously monitors the financial situation of customers to monitor the significant loss from credit risk. As of December 31, 2022 and 2021, 36% and 40%, respectively, of accounts receivable were from top five customers, so there was no significant concentration of credit risk. In addition, the Company periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

(b) Cash and cash equivalents

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

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(c) Receivables and debt securities

Please refer to note 6(5) for details on the credit risk exposure of accounts receivable. Please refer to note 6(3) for financial assets at amortized cost including segregated foreign exchange deposit account for Offshore Funds and pledged time deposits. Please refer to notes 6(2) and (4) for details on financial assets at fair value through profit and loss and other comprehensive income including listed stocks, unlisted stocks, open-end funds, and private equity funds.

The financial assets mentioned above were with lower credit risk, so a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date.

E. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Cash flow of contract</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
<b>December 31, 2022</b>					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 16,469,113	(16,469,113)	(15,546,113)	(923,000)	-
Lease liabilities (current and non-current)	113,706	(114,813)	(35,667)	(79,146)	-
Bonds payable	3,442,031	(3,500,000)	-	(3,500,000)	-
	<u><b>\$ 20,024,850</b></u>	<u><b>(20,083,926)</b></u>	<u><b>(15,581,780)</b></u>	<u><b>(4,502,146)</b></u>	<u><b>-</b></u>
<b>December 31, 2021</b>					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 18,831,497	(18,831,497)	(18,830,869)	(628)	-
Lease liabilities (current and non-current)	57,949	(58,845)	(26,823)	(32,022)	-
Bonds payable	3,412,855	(3,500,000)	-	(3,500,000)	-
Fixed interest rate liabilities	379,216	(379,697)	(379,697)	-	-
	<u><b>\$ 22,681,517</b></u>	<u><b>(22,770,039)</b></u>	<u><b>(19,237,389)</b></u>	<u><b>(3,532,650)</b></u>	<u><b>-</b></u>

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

F. Fair value of financial instruments

(a) Fair value measurements recognized in the balance sheets

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

Fair value hierarchy

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

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 674,253	-	-	674,253
Domestic unlisted stocks	-	-	174,012	174,012
Foreign unlisted stocks	-	-	6,496	6,496
Domestic private equity funds	-	-	34,444	34,444
	<u>\$ 674,253</u>	<u>-</u>	<u>214,952</u>	<u>889,205</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	123,098	123,098
Foreign unlisted stocks	-	-	167,686	167,686
	<u>\$ -</u>	<u>-</u>	<u>290,784</u>	<u>290,784</u>
	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 728,076	-	-	728,076
Domestic unlisted stocks	-	-	302,867	302,867
Foreign unlisted stocks	-	-	15,873	15,873
Domestic private equity funds	-	-	39,909	39,909
Beneficiary certificates — open-end funds	363,760	-	-	363,760
Derivative instruments — convertible bonds	-	-	4,900	4,900
	<u>\$ 1,091,836</u>	<u>-</u>	<u>363,549</u>	<u>1,455,385</u>
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	205,867	205,867
Foreign unlisted stocks	-	-	233,077	233,077
	<u>\$ -</u>	<u>-</u>	<u>438,944</u>	<u>438,944</u>

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There were no transfers between Levels 1 and 2 for the years ended December 31, 2022 and 2021.

The reconciliations of Level 3 fair value measurements of financial instruments were as follows:

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Private equity funds	Derivative instruments — convertible bonds	Equity instruments	Equity instruments	Total
January 1, 2022	\$ 39,909	4,900	318,740	438,944	802,493
Recognized in profit or loss	(5,465)	(4,900)	(130,957)	-	(141,322)
Recognized in other comprehensive income	-	-	-	(62,878)	(62,878)
Additions for the period	-	-	-	31,500	31,500
Disposal and proceeds from capital reduction	-	-	(7,275)	(116,782)	(124,057)
December 31, 2022	<b>\$ 34,444</b>	<b>-</b>	<b>180,508</b>	<b>290,784</b>	<b>505,736</b>
January 1, 2021	\$ 42,033	-	332,564	199,247	573,844
Recognized in profit or loss	(2,124)	2,105	31,126	-	31,107
Recognized in other comprehensive income	-	-	-	134,692	134,692
Additions for the period	-	2,795	-	105,005	107,800
Proceeds from capital reductions	-	-	(25,150)	-	(25,150)
Transfer out of the level 3	-	-	(19,800)	-	(19,800)
December 31, 2021	<b>\$ 39,909</b>	<b>4,900</b>	<b>318,740</b>	<b>438,944</b>	<b>802,493</b>

(c) Valuation techniques and inputs applied for the purpose of Level 3 fair value measurement

The Company's financial instruments that use Level 3 inputs to measure fair value mainly include financial assets at fair value through profit or loss—equity investments, derivative financial instruments, private equity funds, and financial assets at fair value through other comprehensive income—equity investments. If the measurement of the fair value requires the use of observable inputs which cannot be objectively observed, the Company will evaluate the most relevant market data carefully for the evaluation item.

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Quantified information of significant unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income—equity investments without an active market	Market approach	<ul style="list-style-type: none"> <li>Discount for lack of marketability (December 31, 2022: 20.81%~22.11% and December 31, 2021: 15%~28.97%)</li> </ul>	<ul style="list-style-type: none"> <li>The higher the discount for lack of marketability, the lower the fair value</li> </ul>
Financial assets at fair value through other comprehensive income—equity investments without an active market	Income approach	<ul style="list-style-type: none"> <li>Sustainable revenue growth rate (December 31, 2022: 1.6% and December 31, 2021: 2.5%)</li> <li>Weighted-average cost of capital (December 31, 2022: 6.25%~12.11% and December 31, 2021: 7.02%~9.59%)</li> <li>Discount for lack of marketability (December 31, 2022 and December 31, 2021: 15%)</li> <li>Discount for non-controlling interest (December 31, 2022 and December 31, 2021: 15%)</li> </ul>	<ul style="list-style-type: none"> <li>The higher the sustainable revenue growth rate, the higher the fair value</li> <li>The higher the weighted-average cost of capital, the lower the fair value</li> <li>The higher the discount for lack of marketability, the lower the fair value</li> <li>The higher the discount for non-controlling interest, the lower the fair value</li> </ul>
Financial assets at fair value through profit or loss—equity investments without an active market and private equity funds	Asset-based approach	<ul style="list-style-type: none"> <li>Net Asset Value</li> <li>Discount for lack of marketability (December 31, 2022 and December 31, 2021: 10%)</li> <li>Discount for non-controlling interest (December 31, 2022 and December 31, 2021: 10%)</li> </ul>	No applicable

The fair values of derivatives instruments—convertible bonds is estimated by the binary tree convertible bond evaluation model, and the significant unobservable input value used is the stock price volatility. The stock price volatility adopted on December 31, 2022 and 2021, was 38.59% and 43.39%, respectively.

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

(26) Capital management

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

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

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

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

The Company's debt-to-equity ratios at December 31, 2022 and 2021, were as follows:

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Total liabilities	\$ 21,669,547	25,449,133
Total equity	37,631,822	37,308,434
Debt-to-adjusted-capital ratio (%)	58	68

As of December 31, 2022, there is no change in the method of capital management of the Company.

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

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

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

	<b>January 1, 2022</b>	<b>Cash flows</b>	<b>Foreign exchange movement and others</b>	<b>December 31, 2022</b>
Short-term borrowings	\$ 379,216	(382,995)	3,779	-
Lease liabilities (current and non-current)	57,949	(36,160)	91,917	113,706
Bonds payable	3,412,855	-	29,176	3,442,031
Guarantee deposits received (current and non-current)	628	1,659,592	184,080	1,844,300
Total liabilities from financing activities	<b>\$ 3,850,648</b>	<b>1,240,437</b>	<b>308,952</b>	<b>5,400,037</b>



**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

	January 1, 2021	Cash flows	Foreign exchange movement and others	December 31, 2021
Short-term borrowings	\$ 1,452,480	(1,076,498)	3,234	379,216
Lease liabilities (current and non-current)	33,494	(21,098)	45,553	57,949
Bonds payable	-	3,511,309	(98,454)	3,412,855
Guarantee deposits received	487	141	-	628
Total liabilities from financing activities	<u>\$ 1,486,461</u>	<u>2,413,854</u>	<u>(49,667)</u>	<u>3,850,648</u>

**7. Related-party transactions**

(1) Names and relationship with related parties

The followings are subsidiaries and related parties that have had transactions with the Company during the periods covered in the parent company only financial statements:

Name of related party	Relationship with the Company
Microtops Design Corporation	Associate
Hosin Global Electronics Co., Ltd. (SZ) (Hosin Global SZ)	Associate
Hosin Global Electronics Co., Ltd. (HK)	Hosin Global SZ's subsidiary
SiliTai Electronics Co., Limited	Hosin Global SZ's subsidiary
Hefei Core Storage Electronic Limited	Hosin Global SZ's subsidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
Hefei Datang Storage Technology Co., Ltd.	Hefei Xinpeng's subsidiary
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Since January 1, 2022, it was no longer an associate and became a subsidiary of the Company
Kioxia Corporation (KIC)	The Company's director
Kioxia Taiwan Corporation	KIC's subsidiary
Kioxia Asia, Limited	KIC's subsidiary
Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	KIC's subsidiary
Toshiba International Procurement HongKong, Ltd.	KIC's associate
Orient Semiconductor Electronics Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Company since then.
Apacer Technology Inc.	The Company is its director
UD INFO Corp.	Since August 1, 2022, it became a subsidiary of Apacer Technology Inc.

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

<u>Name of related party</u>	<u>Relationship with the Company</u>
ONE UPON Co. Ltd.	The Company's director is its chairman
LIU, TIAN-PAI	Other related party
Lian Xu Dong Investment Corporation	Subsidiary
Phison Electronics Japan Corp.	Subsidiary
Phison Technology Inc.	Subsidiary
Emtops Electronics Corp.	Subsidiary
Ostek Company	Subsidiary
Phisontech Electronics Taiwan Corp.	Subsidiary
Memoryexchange Corporation	Subsidiary (Note)
Super Storage Technology Corporation	Subsidiary
Power Storage Technology (Shenzhen) Limited	Subsidiary
Phison Technology India Private Limited	Subsidiary

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

(2) Significant transactions with related parties

A. Operating revenues

The amounts of significant sales by the Company to related parties were as follows:

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Subsidiaries	\$ 526,126	185
Associates	5,761,656	7,183,771
Other related parties	3,215,711	2,961,939
	<u><b>\$ 9,503,493</b></u>	<u><b>10,145,895</b></u>

The credit terms to related parties were ranged from 7 days after delivery to EOM 60 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price and credit terms of the Company for related parties and that for the third parties.

B. Purchase of goods and Processing costs

(a) Purchase of goods

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Associates	\$ (3,655)	182,447
Other related parties – Kioxia Taiwan Corporation	11,413,643	14,676,478
Other related parties	-	247
	<u><b>\$ 11,409,988</b></u>	<u><b>14,859,172</b></u>

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

(b) Processing costs

<b>Related Party Category / Name</b>	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Subsidiaries	\$ 482,160	452,929
Other related parties	2,071,125	2,433,741
	<b>\$ 2,553,285</b>	<b>2,886,670</b>

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

C. Accounts receivable from related parties

<b>Related Party Category / Name</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Subsidiaries	\$ 70,783	-
Associate—Hosin Global Electronics Co., Ltd. (HK)	235,530	1,614,392
Associates	417,838	553,795
Other related parties	567,815	652,856
	1,291,966	2,821,043
Less: Loss allowance	(22,110)	(7,519)
	<b>\$ 1,269,856</b>	<b>2,813,524</b>

The outstanding accounts receivable from related parties are unsecured.

D. Accounts payable to related parties

<b>Related Party Category / Name</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Subsidiaries	\$ 103,127	99,277
Other related parties—Kioxia Taiwan Corporation	578,866	2,764,162
Other related parties	-	436,145
	<b>\$ 681,993</b>	<b>3,299,584</b>

E. Other transactions

<b>Account Name</b>	<b>Related Party Category / Name</b>	<b>For the years ended December 31,</b>	
		<b>2022</b>	<b>2021</b>
Operating Costs	Subsidiaries	\$ 26,934	25,424
	Other related parties	3,812	1,334
		<b>\$ 30,746</b>	<b>26,758</b>

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

<b>Account Name</b>	<b>Related Party Category / Name</b>	<b>For the years ended December 31,</b>	
		<b>2022</b>	<b>2021</b>
Operating Expenses	Subsidiaries	\$ 422,946	322,806
	Associates	256,178	277,377
	Other related parties	6,808	11,955
		<b>\$ 685,932</b>	<b>612,138</b>
Non-operating incomes	Subsidiaries	\$ 1,285	1,837
	Associates	1,228	1,405
	Other related parties	44,296	21,781
		<b>\$ 46,809</b>	<b>25,023</b>

The related parties distributed \$133,261 thousand and \$1,742,114 thousand cash dividend to the Company for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, all the aforementioned dividends had been fully received.

As of December 31, 2022 and 2021, the receivables arising from abovementioned transactions were \$201 thousand and \$26,700 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$65,114 thousand and \$92,543 thousand, respectively (recognized as other current liabilities).

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

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

(3) Key management personnel compensation

Key management personnel compensation comprised:

	<b>For the years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Short-term employee benefits	\$ 427,924	561,395
Post-employment benefits	1,804	1,988
Share-based payments	39,440	86,679
	<b>\$ 469,168</b>	<b>650,062</b>

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

Please refer to note 6(20) for further explanations related to share-based payment.

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

**8. Pledged assets**

The carrying amounts of pledged assets were as follows:

<b>Pledged assets</b>	<b>Object</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	<b>\$ 40,499</b>	<b>40,459</b>

**9. Commitments and contingencies**

(1) Significant commitments

A. The Company's unused letters of credit

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Unused letters of credit	<b>\$ 1,160,000</b>	<b>1,160,000</b>

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

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
	<b>\$ -</b>	<b>373,455</b>

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

	<b>December 31, 2022</b>
	<b>\$ 26,400</b>

(2) Purchase commitment

The Company entered into a long-term purchase agreement of material with a supplier. The relative purchase quantity and price of wafers are specified in the agreement. According to the agreement, the Company has to pay partial guarantee deposit before the appointment date. As of December 31, 2022, the Company has paid US\$18,480 thousand of guarantee deposit (recognized as other noncurrent assets).

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

(3) Long-term supply agreement

The Company entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of US\$90,000 thousand as agreed. The Company was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. Based on the agreement, the Company repaid US\$30,000 thousand in the fourth quarter of 2022. As of December 31, 2022, the guarantee deposits received were classified as current liabilities of \$921,300 thousand (recognized as other current liabilities) and non-current liabilities of \$921,300 thousand (recognized as guarantee deposits received) based on the expected repayment period.

**10. Losses due to major disasters: None**

**11. Subsequent events: None**

**12. Other**

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

By item	By function	For the year ended December 31,					
		2022			2021		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
	Salary	648,398	6,740,759	7,389,157	334,337	6,949,459	7,283,796
	Labor and health insurance	56,899	355,101	412,000	35,181	259,350	294,531
	Pension	28,074	187,600	215,674	14,784	134,328	149,112
	Remuneration of directors	-	35,000	35,000	-	50,000	50,000
	Others	35,140	167,213	202,353	25,754	128,856	154,610
	Depreciation	149,439	397,884	547,323	102,640	293,676	396,316
	Amortization	507	391,958	392,465	506	270,306	270,812

The following provides information of the number of employees and employee benefits in 2022 and 2021, respectively:

	For the year ended December 31,	
	2022	2021
Number of employees	3,386	2,584
Number of directors who were not employees	5	5
Average employee benefit costs	\$ 2,431	3,056
Average employee salary expenses	\$ 2,186	2,824
Adjustment of average employee salary expenses	(22.59)%	

Note: The Company did not have a supervisor in 2022 and 2021; hence, no remuneration to supervisors had been accrued.

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

Remuneration policies for directors, managerial personnel and employee were as follows:

The Company's policy on the remuneration of directors: The policy is provided in the Company's Articles of Incorporation, Article 16 which states that "Remuneration of the chairperson and directors of the Company shall be determined by the Board of Directors based on the value of the involvement and contribution of the chairperson and each director in the operation of the Company and with reference to industry standards." and Article 19 which states that "If the Company makes profit in the year, it shall appropriate 8% to 19% for compensation of employees and no more than 1.5% for remuneration of directors." No other remuneration of whatever kind or nature shall be made to the directors. For the determination of the amount of remuneration, the Board of Directors shall refer to the result of "Self-evaluation or peer-evaluation of the Board of Directors" as well as to the result of the evaluation of the performance of each director and supervisor, including attendance in meetings and continuing education of the Board of Directors. The remuneration committee will review the evaluation of each director and submit recommendation to the Board of Directors. The remuneration system shall be reviewed at any time necessary in the actual operating conditions in accordance with the provisions of relevant laws and regulations, in order to achieve the balance of the Company's sustainable operation and risk control.

The Company's policy on the salary and remuneration of employees: Remuneration of employees is divided into fixed and variable salary items. The fixed salary is based on the salary classification standard of the employee's position; the variable salary is based on the Company's operating results, and is distributed corresponding to the employee's individual performance assessment. The policy is reviewed and modified timely based on actual operating conditions, market trends and relevant laws and regulations.

The Company's policy on the remuneration of managers: The remuneration policy is reviewed regularly by the remuneration committee, and the content and amount of remuneration are determined individually based on the manager's achievement of performance goals; then, recommendations are submitted to the Board of Directors for discussion and decision. The policy is reviewed and modified timely based on actual operating conditions, market trends and relevant laws and regulations.

- (2) The Company was served two complaints from Taiwan Hsinchu District Court on November 8, 2019 and December 13, 2019, that the Securities and Futures Investors Protection Center ( "SFIPC" ) filed the following two civil actions:
- A. To ask to remove Mr. K.S. Pua from the Company's Board Director Position ( "Removal Action" );
  - B. To claim monetary damage amounting to \$697,389 thousand against the Company, Mr. K.S. Pua and other co-defendants ( "Claim Action" ).

**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

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

**13. Addition disclosures**

(1) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

- A. Loans to other parties: None
- B. Guarantees and endorsements for other parties: None
- C. Securities held as of December 31, 2022 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 1.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 2.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 3.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 4.
- I. Trading in derivative instruments: Please refer to Notes 6(2).

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

(3) Information on investment in Mainland China:

- A. The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 6.
- B. Limitation on investment in Mainland China: Please refer to Table 6.



**Phison Electronics Corp.**  
**Notes to the Parent Company Only Financial Statements**

C. Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions” .

(4) Major shareholders:

(in units of shares)

Shareholder's Name	Shareholding	Shares	Percentage
Trust Investment Account of KIOXIA Corporation by First Bank		19,821,112	9.97%

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

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

**14. Segment information**

Please refer to consolidated financial statements for the year ended December 31, 2022.

**Phison Electronics Corp.**

**Securities held as of December 31, 2022 (excluding investment in subsidiaries, associates and joint ventures)**

**December 31, 2022**

Table 1

(Shares in Thousands /Amounts in Thousands)

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	
The Company	<u>Common shares</u>						
	Apacer Technology Inc.	-	Financial assets at fair value through profit or loss – current	12,555	519,760	10.23	519,760
	Orient Semiconductor Electronics, Ltd.	-	Same as above	7,336	128,753	0.89	128,753
	Acer Synergy Tech Corp.	-	Same as above	600	25,740	3.00	25,740
					<u>674,253</u>		
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	5,355	122,259	11.11	122,259
	Taiwania Capital Buffalo Fund CO., Ltd. (formerly known as Taishan Buffalo Investment CO., Ltd.)	-	Same as above	46,300	36,211	1.08	36,211
	Innorich Venture Capital Corp.	-	Same as above	3,000	15,542	5.61	15,542
	JAFECO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	6,496	0.67	6,496
					<u>180,508</u>		

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	
The Company	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at fair value through other comprehensive income — non-current	11,966	150,720	17.16	150,720
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	68,769	2.92	68,769
	AppWorks Fund IV L.P.L	-	Same as above	31,500	31,500	9.86	31,500
	Adam Elements International Co., Ltd.	-	Same as above	1,710	22,829	19.00	22,829
	Gomore Inc.	-	Same as above	16,925	11,259	1.86	11,259
	H3 Platform, Inc.	-	Same as above	18,400	2,178	12.14	2,178
	Gospal Ltd.	-	Same as above	811,857	3,529	3.19	3,529
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-
	THLight Co., Ltd.	-	Same as above	6,388	-	12.66	-
	GeoThings, Inc.	-	Same as above	150	-	3.13	-
	Ironyun Incorporated	-	Same as above	5,000	-	3.76	-
	<u>Private equity funds</u>				290,784		
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss — non-current	6,000	34,444	3.78	34,444

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	
Lian Xu Dong Investment Corporation	<u>Common shares</u>						
	Translink Capital Partners III L.P	-	Financial assets at fair value through profit or loss — non-current	1,500	59,807	1.18	59,807
	Translink Capital Partners IV L.P	-	Same as above	930	42,588	0.59	42,588
					102,395		
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income — non-current	2,111	436	4.75	436
	Translink Capital Partners V, L.P.	-	Same as above	930	27,823	1.93	27,823
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	50,000	45,357	3.19	45,357
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	24,214	8.20	24,214
	New Future III Limited Partnership	-	Same as above	25,756	20,376	5.13	20,376
	Omni Media International Incorporation	-	Same as above	1,714	12,309	2.60	12,309
	UMBO CV INC. (preference shares)	-	Same as above	1,626	-	2.34	-
					130,515		

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Emitops Electronics Corporation  Phisontech Electronics	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income — non-current	-	-	19.00	-	
	<u>Beneficiary certificates — open-end funds</u>							
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss — current	167	30,214	-	30,214	
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,133	-	20,133	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,141	-	20,141	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,142	-	20,142	
Super Storage Technology Corporation	Capital Money Market Fund	-	Same as above	1,229	20,139	-	20,139	
	<u>Common shares</u>				110,769			
	Power Research Technology Corp.	-	Financial assets at fair value through other comprehensive income — non-current	833	10,398	12.53	10,398	

**Phison Electronics Corp.**  
**Acquisition of Individual Real Estate Properties at Costs of at least NT\$300 Million or 20% of the paid-in capital**  
**For the year ended December 31, 2022**

(Amounts in Thousands)

Company Name	Types of Property	Transaction Date	Transaction Amount	Status of Payment	Counter-Party	Nature of Relationships	Prior Transaction of Related Counter-Party			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship with the Company	Date of Transfer	Amount		
The Company	5th Factory in Zhunan	January 17, 2020 (Note 1)	1,398,000	Full payment	Engaging others to build on its own land (The contractor is Ruentex Engineering & Construction Co., Ltd.)	-	-	-	-	-	No applicable	For operational use
	Factory with loading and unloading parking space	November 12, 2020 (Note 1)	829,000	Full payment	Engaging others to build on its own land (The contractor is Ruentex Engineering & Construction Co., Ltd.)	-	-	-	-	-	No applicable	For operational use
	Land	January 21, 2022 (Note 2)	346,660	Full payment	Miaoli County Government	-	-	-	-	-	Appraisal report, market value announced, and actual price registration of transactions in the neighborhood	For operational use

Note 1: It was approved by the Board of Directors to engage others to build on the Company's own land and completed and accepted in June 2022.

Note 2: It was approved by the Board of Directors, and the Company won the bid on January 25, 2022.

**Phison Electronics Corp.**

**Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock  
For the year ended December 31, 2022**

Table 3

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Kioxia Taiwan Corporation	The subsidiary of KIC	Purchase	11,413,643	32	Net 30 days after monthly closing	None	None	(578,866)	(10)	
	Orient Semiconductor Electronics, Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Group since then.	Processing cost	2,071,125	5	Net 30 days after monthly closing	None	None	-	-	
The Company	Super Storage Technology Corporation	Sub-subsiary	Processing cost	460,701	1	Net 30 days after monthly closing	None	None	(98,846)	(2)	
	Kioxia Corporation	The Company's director	Sales	(1,640,541)	(3)	Net 60 days after monthly closing	None	None	303,443	4	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(235,261)	-	Net 45~60 days after monthly closing	None	None	42,789	1	

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Apacer Technology Inc.	The Company is its director	Sales	(1,074,199)	(2)	Net 45 days after monthly closing	None	None	133,949	2	
	UDINFO CORP.	Since August 1, 2022, it became a subsidiary of Apacer Technology Inc.	Sales	(137,330)	-	Net 45 days after monthly closing	None	None	79,687	1	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	Sales	(2,122,032)	(4)	Net 7~45 days after receipt date and Net 45 days after monthly closing	None	None	322,540	5	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(212,385)	-	Net 45 days after receipt date and Net 60 days after receipt date	None	None	67,217	1	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(3,044,956)	(5)	Net 45 days after monthly closing	None	None	226,234	3	
	Nextorage Corporation	Subsidiary	Sales	(525,387)	(1)	Net 60 days after monthly closing	None	None	70,559	1	
	ProGrade Digital Inc.	Associate	Sales	(351,991)	(1)	Net 30 days after receipt date	None	None	17,052	-	

Note 1: The payment terms and credit terms to related parties were similar to those offered to non-related.



**Phison Electronics Corp.**  
**Receivables from Related Parties Amounting to at least NT\$100 Million or 20% of the Paid-in Capital**  
**December 31, 2022**

Table 4 (Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period (Note 1)	Allowance for Bad Debts	Note
					Amount	Action Taken			
The Company	Apacer Technology Inc.	The Company is its director	133,949	6.39	-	-	133,949	430	
	Kioxia Corporation	The Company's director	303,443	5.40	-	-	303,443	974	
	Hefei Core Storage Electronic Limited	The subsidiary of Hosin Global (SZ)	322,540	7.04	187,250	-	322,540	10,127	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	226,234	3.31	176,498	-	224,139	9,296	

Note 1: Information as of February 28, 2023.

**Phison Electronics Corp.**  
**Information on Investees (Excluding Information on Investees in Mainland China)**  
**For the year ended December 31, 2022**

Table 5

(Amount in Thousands)

The following is the information on investees for the years ended December 31, 2022 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022		Net Income (Losses) of Investee	Share of Profits/ Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)			
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	(857,194)	(857,194)	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	(469,967)	(469,967)	Subsidiary
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	58	581,363	55,000,000	100.00	44,171	44,007	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	13,991	13,991	Subsidiary
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	1,065	324	Investee accounted for using the equity method
	Entops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	17,524	17,524	Subsidiary
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	219,715	81,232	12,000	100.00	121,487	121,487	Subsidiary and note 2
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	2,180	2,180	Subsidiary
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	69,899	21,158	Investee accounted for using the equity method

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2022		Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2022	December 31, 2021	Shares	Percentage of Ownership (%)			
The Company	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	-	-	(4,051)	(4,051)	Subsidiary and note 3
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	8,768	-	2,299,990	100.00	(1)	(1)	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	997	997	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	4,972	2,437	Investee accounted for using the equity method
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	(1,853)	Note 1	Sub-subsidiary
	Phison Technology Inc. USA	USA	Sales and service office	90,419	90,419	3,000,000	100.00	14,055	Note 1	Sub-subsidiary
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	-	-	10	-	(1)	Note 1	Subsidiary
	Phisontech Electronics Taiwan Corp.	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	46,237	Note 1	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	(858,978)	Note 1	Sub-subsidiary
	Power Flash (Samoa) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	1,367	Note 1	Sub-subsidiary
	Regis Investment (Samoa) Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	(470,061)	Note 1	Sub-subsidiary

Note 1: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.

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

Note 3: The liquidation procedure of Everspeed Technology Limited was completed in July 2022.

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

Table 6

(Amounts in Thousands)

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from January 1, 2022	Investment Flows		Accumulated Outflow of Investment from December 31, 2022	Net Income (Losses) of the Investee	Percentage of Ownership (%)	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	(67,038)	91,477	-	
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	2(1)	-	-	-	-	(276,581)	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	(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 (%)	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	416	44,494	-	

(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.

**Phison Electronics Corp.**  
**Statement of Cash and Cash Equivalents**  
**December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars,**  
**Unless Otherwise Specified)**

<b>Item</b>	<b>Description</b>	<b>Amount</b>
Cash	Petty cash and cash on hand	\$ <u>115</u>
	Demand deposits	7,137,449
	Time deposits	2,957,650
	Foreign demand deposits (USD : 113,217 thousand ; JPY : 12,534 thousand ; CNY : 156 thousand)	3,480,492
	Foreign time deposits (USD : 50,000 thousand ; CNY : 23,000 thousand)	<u>1,636,884</u>
	Subtotal	<u>15,212,475</u>
	Total	<u><u>\$ 15,212,590</u></u>

Note: The exchange rates at the balance sheet date were as follows:

USD to NTD: 30.71

JPY to NTD: 0.232

CNY to NTD: 4.408

**Phison Electronics Corp.**  
**Statement of Financial Assets Measured at  
Fair Value through Profit or Loss—Current and  
Non-current**  
**December 31, 2022**

Please refer to note 6(2) for further information of financial assets measured  
at fair value through profit or loss.

**Statement of Financial Assets Measured at Fair Value**

Please refer to note 6(4) for further information of financial assets measured  
at fair value through other comprehensive income—non-current.

**Phison Electronics Corp.**  
**Statement of Accounts Receivable**  
**December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Name of customer</u>	<u>Amount</u>
Related parties	
Company A	\$ 332,668
Company B	304,417
Company C	235,530
Company D	134,379
Company E	79,942
Company F	70,559
Company G	68,031
Others (the amount of individual customer does not exceed 5% of the account balance)	<u>66,440</u>
Subtotal	1,291,966
Less: loss allowance	<u>(22,110)</u>
	<b><u>\$ 1,269,856</u></b>
Unrelated parties	
Company H	\$ 828,771
Company I	522,091
Company J	486,213
Company K	455,955
Others (the amount of individual customer does not exceed 5% of the account balance)	<u>3,633,157</u>
Subtotal	5,926,187
Less: loss allowance	<u>(88,634)</u>
	<b><u>\$ 5,837,553</u></b>

Note: Accounts receivable are generated from operating activities.



**Phison Electronics Corp.**

**Statement of Inventories**

**December 31, 2022**

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

<b>Item</b>	<b>Amount</b>	
	<b>Cost</b>	<b>Net realizable value</b>
Raw materials	\$ 14,757,068	17,646,558
Work in process	2,423,833	3,146,063
Semi-finished goods	2,972,532	3,907,501
Finished goods	130,882	152,764
Total	<b><u>\$ 20,284,315</u></b>	<b><u>24,852,886</u></b>

**Statement of Other Current Assets**

<b>Item</b>	<b>Amount</b>
Temporary payments	<b><u>\$ 869</u></b>

**Statement of Prepayments**

<b>Item</b>	<b>Amount</b>
Prepaid insurance	\$ 10,836
Prepayment for purchases	11,549
Others (individual amount does not exceed 5% of the account balance)	<u>39,903</u>
Total	<b><u>\$ 62,288</u></b>

**Phison Electronics Corp.**  
**Statement of Movements in Investments Accounted for Using the Equity Method**  
**For the year ended December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars, in thousands shares)**

Name of investee	Beginning balance		Increase (Decrease)		Share of profits/losses of investee	Cash dividends	Capital surplus	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	Other adjustments	Unrealized gain on transaction	Ending balance		Percentage of ownership	Net assets value	Pledged as collateral
	Shares	Amount	Shares	Amount								Shares	Amount			
ProGrade Digital Inc.	2,785	\$ 98,019	-	-	21,158	-	(3,708)	7,670	-	-	3,842	2,785	126,981	28.71	88,891	None
EpoStar Electronics (BVI) Corporation	6,289	421,077	-	-	324	-	-	-	(214,605)	-	-	6,289	206,796	30.51	206,796	None
Microtops Design Corporation	2,264	23,282	-	-	2,437	-	-	-	-	-	-	2,264	25,719	49.00	25,719	None
Nextorage Corporation	6	74,263	6	138,483	121,487	-	-	13,428	-	43,978 (note 1)	25,718	12	417,357	100.00	417,357	None
Lian Xu Dong Investment Company	65,000	589,527	-	-	13,991	-	35	-	(116,968)	-	-	65,000	486,585	100.00	486,585	None
Emtop's Electronics Corp.	38,000	358,981	-	-	17,524	-	4,327	11,454	-	-	-	38,000	392,286	100.00	392,286	None
Phison Electronics Japan Corp.	2	29,222	-	-	997	-	-	(963)	-	-	-	2	29,256	100.00	29,256	None
Phisontech Electronics Taiwan Corp	55,000	664,963	-	-	44,007	-	-	-	(1,545)	-	-	55,000	707,425	100.00	707,374	None
Everspeed Technology Limited	1,000	108,037	(1,000)	(7,099)	(4,051)	(96,880)	-	(2,744)	-	2,737 (note 2)	-	-	-	-	-	-
Power Flash (Samoa) Limited	4,800	135,870	-	-	2,180	-	-	10,046	-	-	-	4,800	148,096	100.00	148,096	None
Regis Investment (Samoa) Limited	21,900	1,246,189	-	-	(469,967)	-	331,248	44,586	-	-	(3,938)	21,900	1,148,118	100.00	1,160,394	None
Global Flash Limited	22,100	2,753,036	-	-	(857,194)	-	684,584	94,408	-	-	(8,345)	22,100	2,666,489	100.00	2,686,468	None
Phison Technology India Private Limited	-	-	2,300	8,768	(1)	-	-	(234)	-	-	-	2,300	8,533	100.00	8,533	None
Total		\$ 6,502,466		140,152	(1,107,108)	(96,880)	1,016,486	177,651	(333,118)	46,715	17,277		6,363,641		6,357,755	

Note 1: The balances include Gain on a bargain purchase \$16,289 thousand and Gain on disposal of investments accounted for using the equity method \$27,689 thousand.

Note 2: The balances included the gain on disposal of investments accounted for using the equity method.

**Phison Electronics Corp.**  
**Statement of Movement in Right-of-Use Assets**  
**For the year ended December 31, 2022**

Please refer to note 6(11) for further information of lease.

**Statement of Movement in Intangible Assets**

Please refer to note 6(12) for further information of intangible assets.

**Statement of Other Non-current Assets**  
**December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Refundable deposits	\$ 588,157
Prepayments for equipment	48,354
	<b><u>\$ 636,511</u></b>

**Phison Electronics Corp.**  
**Statement of Accounts Payable**  
**December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Vendor name</u>	<u>Amount</u>
Related parties	
Company L	\$ 578,866
Company M	98,846
Others (the amount of individual vendor does not exceed 5% of the account balance)	<u>4,281</u>
	<b><u>\$ 681,993</u></b>
Unrelated parties	
Company I	\$ 1,345,163
Company N	1,028,606
Company O	742,147
Company P	327,867
Others (the amount of individual vendor does not exceed 5% of the account balance)	<u>1,849,019</u>
	<b><u>\$ 5,292,802</u></b>

Note: Accounts payable are generated from operating activities.

**Phison Electronics Corp.**  
**Statement of Other Payables**  
**December 31, 2022**

Please refer to note 6(14) for further information of other payables.

**Statement of Other Current Liabilities**

Please refer to note 6(15) for further information of other current liabilities.

**Statement of Lease Liabilities**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Summary</u>	<u>Lease period</u>	<u>Discount rate</u>	<u>Ending balance</u>	<u>Note</u>
Building	Plant and dormitory	May 1, 2021~ December 31, 2026	0.508%~0.810%	\$ 113,065	
Transportation equipment	Company car	November 2, 2020~ May 31, 2025	0.579%~0.810%	641	
				113,706	
Less: lease liabilities, current portion				(35,145)	
				<u><u>\$ 78,561</u></u>	

**Phison Electronics Corp.**  
**Statement of Operating Revenue**  
**For the year ended December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>
Operating revenue:		
Flash memory module products	156,779 thousand	\$ 42,202,620
Integrated Circuit	36,219 thousand	2,057,361
Controllers	464,371 thousand	14,274,982
Others		<u>1,813,425</u>
		60,348,388
Less: Sales returns and allowances		<u>(777,373)</u>
Net operating revenue		<u><b>\$ 59,571,015</b></u>

**Phison Electronics Corp.**  
**Statement of Operating Costs**  
**For the year ended December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Amount</u>
Raw materials	
Beginning balance of raw materials	\$ 11,809,699
Add: Raw materials purchased	34,919,414
Less: Others	719,063
Ending balance of raw materials	<u>14,757,068</u>
Direct raw material	31,252,982
Direct labor	41,864
Manufacturing overhead	<u>9,456,261</u>
Manufacturing cost	40,751,107
Add: Beginning balance of work-in -process	4,642,900
Beginning balance of semi-finished goods	2,902,052
Work-in-process and semi-finished goods purchased	261,371
Less: Ending balance of work-in -process	2,423,833
Ending balance of semi-finished goods	2,972,532
Others	<u>478,383</u>
Cost of finished goods	42,682,682
Add: Beginning balance of finished goods	136,467
Less: Ending balance of finished goods	130,882
Others	<u>10,164</u>
Cost of finished goods	<u>42,678,103</u>
Total cost of sales	<u><u>\$ 42,678,103</u></u>

**Phison Electronics Corp.**  
**Statement of Operating Expenses**  
**For the year ended December 31, 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Marketing expenses</b>	<b>General and administrative expenses</b>	<b>Research and development expenses</b>	<b>Expected credit loss (gain)</b>
Payroll expense	\$ 307,173	613,259	5,820,327	-
Promotion service	403,044	-	-	-
Royalty expense	142,740	-	23,409	-
Commission expense	108,217	-	-	-
Depreciation	3,491	59,512	334,881	-
Impairment loss	-	-	-	63,035
Others (individual amount does not exceed 5% of the account balance)	212,002	221,943	1,953,070	-
<b>Total</b>	<b>\$ 1,176,667</b>	<b>894,714</b>	<b>8,131,687</b>	<b>63,035</b>



**Phison Electronics Corp.**

**Chairman: Wee Kuan Gan**

# ***PHISON***

**Phison Electronics Corp.**

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