



# Phison Electronics Corporation

## 2018 ANNUAL REPORT

### *Notice to Readers*

*For the convenience of readers, the 2018 ANNUAL REPORT has been translated into English from the original Chinese version prepared and used in the Republic of China and is not an official document of the shareholders' meeting. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese version of the 2018 ANNUAL REPORT shall prevail.*

**Annual Report is available in the following websites.**  
**Taiwan Stock Exchange Market Observation Post System:**  
**<http://mops.twse.com.tw>**  
**Corporation Website: [www.phison.com](http://www.phison.com)**  
**Printed on May 24, 2019**

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- **Stock Transfer Agent**

Registrar, Horizon Security Corp.

Address: 3F., No.236, Sec. 4, Hsin-I Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

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Deloitte Touche Tohmatsu Limited

Address: 20F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)

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- **Overseas Securities Exchange: None.**

- **Corporation Website: [www.phison.com](http://www.phison.com)**

Phison Electronics Corporation  
2018 Annual Report  
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# I. Letter to Shareholders

Dear Shareholders,

The year of 2018 is a year for Phison Electronics Corp. (the company) growing steadily and committing to innovation, and investment strategically and continuously. Due to the memory manufacturers continues to expand production and the imbalance between supply and demand the flash memory prices was rapidly sliding. The net profit of the company was decline as a result, with the concerted efforts of all groups, the total consolidated revenue for 2018 was approximately NT\$40.8 billion, the consolidated after-tax surplus earning was approximately NT\$4.3 billion, and the after-tax EPS was NT\$21.91.

In 2018, the company's SSD products and the related products of embedded memory, such as control chips and finished products accounted for 46% of the company's total revenue, marking a growth of 11 percent compared with the previous year, and actively developed UFS control chip, which is the best choice of high-performance embedded memory devices in the next generation. The R&D team also continued to invest in key IP development and process miniaturization, providing a more complete and updated product lineup and moving to a major industry milestone.

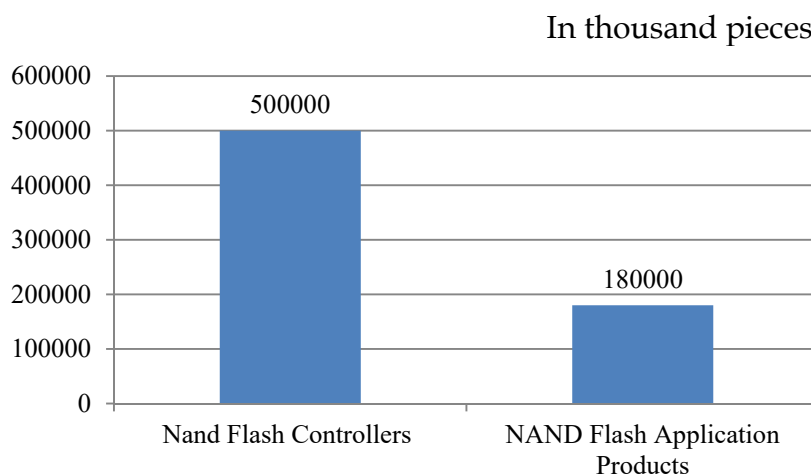
The demand for high speed data storage applications such as Cloud Computing, Big Data, Artificial Intelligence and Gaming have pushed SSD penetration rates to a new pace never seen before. Phison has launched different NAND Flash controllers for different markets, including several PCIe Gen3x4 NVMe controllers and the World's 1st PCIe Gen4x4 NVMe SSD controller. For performance-oriented applications and the enterprise SSD market, Phison offers the 8-channel ultra-high speed, low latency PCIe Gen3x4 controller in mass production. For mobile storage, Phison is one of the few companies that carry both eMMC and UFS controllers, where power consumption and temperature are critical. The latest UFS 3.0 controller unveiled by Phison, with in-house technology such as StrongECCTM, advanced LDPC, CoProcessorTM and RAID, provides optimal power consumption and robust error correction capability while offering SSD-like performance. We also develop the PCIe NVMe BGA SSD as an alternative to high speed mobile storage. For memory cards, Phison has released the latest SD 6.0 and microSD controllers conforming to the SDA Application Performance Class 2 (A2), boosting the random performances while bumping up the capacity to 1TB. For the USB product line, it has evolved into several portable SSDs with unprecedented performance. For instance, the brand new iDUO Lightning and C-Thru USB 3.1 solutions can support end-users charging mobile devices during operation. All Phison product lines are supporting the latest 3D TLC NAND Flash from various manufacturers.

In fiscal year 2018, the following products have been successfully developed and launched, including:

- (1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip.
- (2) The advanced process PCIe G3x4 and MIPI PHY were developed for better performance and energy efficient.

- (3) Developed the latest generation of LDPC+ DSP error correction module, which is able to more effectively support 3D Nand.
- (4) Developed USB3.1 flash disk that supports high speed random write.
- (5) Developed flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption.
- (6) Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices.
- (7) Develop various control chips and solutions that support 3D Nand.
- (8) Developing the low-power RAID of advance error correction for mobile devices.
- (9) Developing low-power yet high performance SSD controllers by supporting HMB feature leveraging host memory buffer.
- (10) Developing SSD product solutions line up, in response to different requirements from various market segments, including embedded applications.
- (11) Developing System-In-Package Nand flash modules.
- (12) In compliance with industrial standards, including design and verification methodologies, developing functional modules for automotive applications.

In 2019, the Company plans to supplement and expand R&D personnel to 1,300 people approximately. The estimated shipment of major products in 2019 years is as follows:



The company's current product line for the new development or continuous upgrade in 2019 is as follows:

- (1) High speed, high capacity USB 3.2 Flash Drive solutions.
- (2) SD 7.0 (SD Express) controllers.
- (3) UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
- (4) High performance PCIe NVMe controllers and solutions.
- (5) 12nm PHYs.
- (6) Enterprise and Datacenter SSD controllers.
- (7) New LDPC ECC engines for emerging 3D QLC NAND Flash.
- (8) System in Package SSD solutions.
- (9) Automotive SSD solutions.

Looking ahead, by uphold the cores of the company culture, Phison Electronics is moving forward to comply with the changing global trends for continuously to expand the territory of the market and to stand the leadership in the market to achieve the goal of opearting the company stably.

**Respectfully yours**

**Chairman of the Board: Pua Khein Seng**

**President: Aw Yong Chee Kong**

**Finance Director : Chiu Shu Hwa**

## II. Company Profile

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

**Date of listing at TPEX: Dec 6, 2004**

### 2.2 Company History

Year	Milestones
Feb, 2010	• Converting the employee stock option of NT\$5,375,000 into the common stock. The paid-in capital was up to NT\$1,472,647,860.
May, 2010	• Converting the employee stock option of NT\$2,525,000 into the common stock. The paid-in capital was up to NT\$1,475,172,860.
Jul, 2010	• Converting the employee stock option of NT\$200,000 into the common stock. The paid-in capital was up to NT\$1,475,372,860.
Aug, 2010	• Converting the profit of NT\$295,034,570 into the common stock. The paid-in capital was up to NT\$1,770,407,430.
Aug, 2010	• This company moved to 10F-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.).
Nov, 2010	• Collaborating with Kingston Technology Corporation to establish "Kingston Solutions Inc." to develop the embedded memory system and explore the market.
Nov, 2010	• Converting the employee stock option of NT\$380,000 into the common stock. The paid-in capital was up to NT\$1,770,787,430.
Jan, 2011	• Converting the employee stock option of NT\$2,815,000 into the common stock. The paid-in capital was up to NT\$1,773,602,430.
Feb, 2011	• Establishing the subsidiary company in Japan, "Phison Electronics Japan Corp."
March, 2011	• Establishing the subsidiary company "EMtops Electronics Corp."
May, 2011	• Converting the employee stock option of NT\$11,660,000 into the common stock. The paid-in capital was up to NT\$1,785,262,430.
Jul, 2011	• Converting the employee stock option of NT\$1,075,000 into the common stock. The paid-in capital was up to NT\$1,786,337,430.
Oct, 2011	• Converting the employee stock option of NT\$1,195,000 into the common stock. The paid-in capital was up to NT\$1,787,532,430.
Jan, 2012	• Converting the employee stock option of NT\$795,000 into the common stock. The paid-in capital was up to NT\$1,788,327,430.
May, 2012	• Converting the employee stock option of NT\$11,890,000 into the common stock. The paid-in capital was up to NT\$1,800,217,430.
May, 2012	• Establishing the subsidiary company in Malaysia "Phison Electronics (Malaysia) Sdn. Bhd."
Jun, 2012	• Establishing the subsidiary company in Samoa "Global Flash Limited".
Aug, 2012	• Converting the employee stock option of NT\$40,000 into the common stock. The paid-in capital was up to NT\$1,800,257,430.
Dec, 2012	• Establishing the subsidiary of subsidiary company in Shenzhen, China, "Phison Electronics (Shenzhen) Limited".
Dec, 2012	• Converting the employee stock option of NT\$1,365,000 into the common stock. The paid-in capital was up to NT\$1,801,622,430.
Feb, 2013	• Converting the employee stock option of NT\$3,117,500 into the common stock. The paid-in capital was up to NT\$1,804,739,930.
May, 2013	• Establishing the subsidiary of subsidiary company "Phison Electronics Taiwan Corp."
Sep, 2013	• The PS3108 controller from Phison Electronics Corporation was proved to show the highest performance in the DramExchange experiments.
Sep, 2013	• Phison Electronics Corporation announced the fastest Cache SSD based on PS3109.

Year	Milestones
Oct, 2013	• Corsair announced the FORCE LS SSD equipped with PS-3108 as the controller IC.
Feb, 2014	• Phison Inside : MyDigitalSSD OTG Pocket SuperSpeed USB 3.0 mSATA SSD was announced.
May, 2014	• Phison PS3109 M.2 SSD won the editor's choice award.
May, 2014	• Chromebook used PS3109 SATA III controller from Phison Electronics Corporation in the system.
May, 2014	• Kingston announced the M.2 SATA III SSD controller based on the PS3108 from Phison Electronics Corporation.
Jul, 2014	• Issuing the private common stock of NT\$50,000,000. The paid-in capital was up to NT\$1,854,739,930.
Aug, 2014	• Phison Electronics Corporation announced the new generation of quad-core SATA3 SSD controller PS3110.
Aug, 2014	• Phison Electronics Corporation announced the Secure USB to protect against newly-identified cyber-attack.
Sep, 2014	• Phison Electronics Corporation announced the ultra-high-speed SDXC 256GB SD card.
Oct, 2014	• Phison Electronics Corporation announced the Secure USB to protect against newly-identified cyber-attack.
Oct, 2014	• Phison Electronics Corporation announced the UHS-II SD card controller to satisfy the needs of 4K2K UHD resolution.
Nov, 2014	• Corsair announced the high performance Neutron XT SSD equipped with PS3110-S10 as the controller IC.
Jan, 2015	• Phison Electronics Corporation announced the ultra-high-speed USB controller chip to satisfy the needs for small size, large capacity and ultra-high speed.
Jan, 2015	• Phison Electronics Corporation announced the SATA III TLC SSD, 2TB MLC SSD and power outage protection design in CES 2015.
Mar, 2015	• Issuing the private common stock of NT\$119,000,000. The paid-in capital was up to NT\$1,973,739,930.
Jun, 2015	• Establishing the "Hefei Core Storage Electronic Limited" in China.
Jan, 2016	• Phison Electronics Corporation announced the first controller chip PS5007-E7 which supports PCIe Gen3 x 4 NVMe SSD.
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 the Max IOPS product line.
Dec, 2016	• NT\$3,000,000 of treasury shares were annulled. The paid-in capital was down to NT\$1,970,739,930.
Dec, 2016	• At the new era of 3D TLC NAND Flash, Phison Electronics Corporation announced the UFS 2.1 chip PS8311.
Jan, 2017	• Phison Electronics Corporation announced the ultra-high-speed NAND Flash controller chip in CES 2017.
Feb, 2017	• Phison SSD controller passed the BiCS3 testing verification which will help the company and Toshiba to enhance 3D NAND application.
Apr, 2017	• The SD 5.1 A1 controller PS8131 introducing BiCS3 technical.
Aug, 2017	• The latest UFS2.1 controller PS8313 widespread to the cross-generation new smart phones.
Apr, 2018	• Launched World First 512GB microSD Card

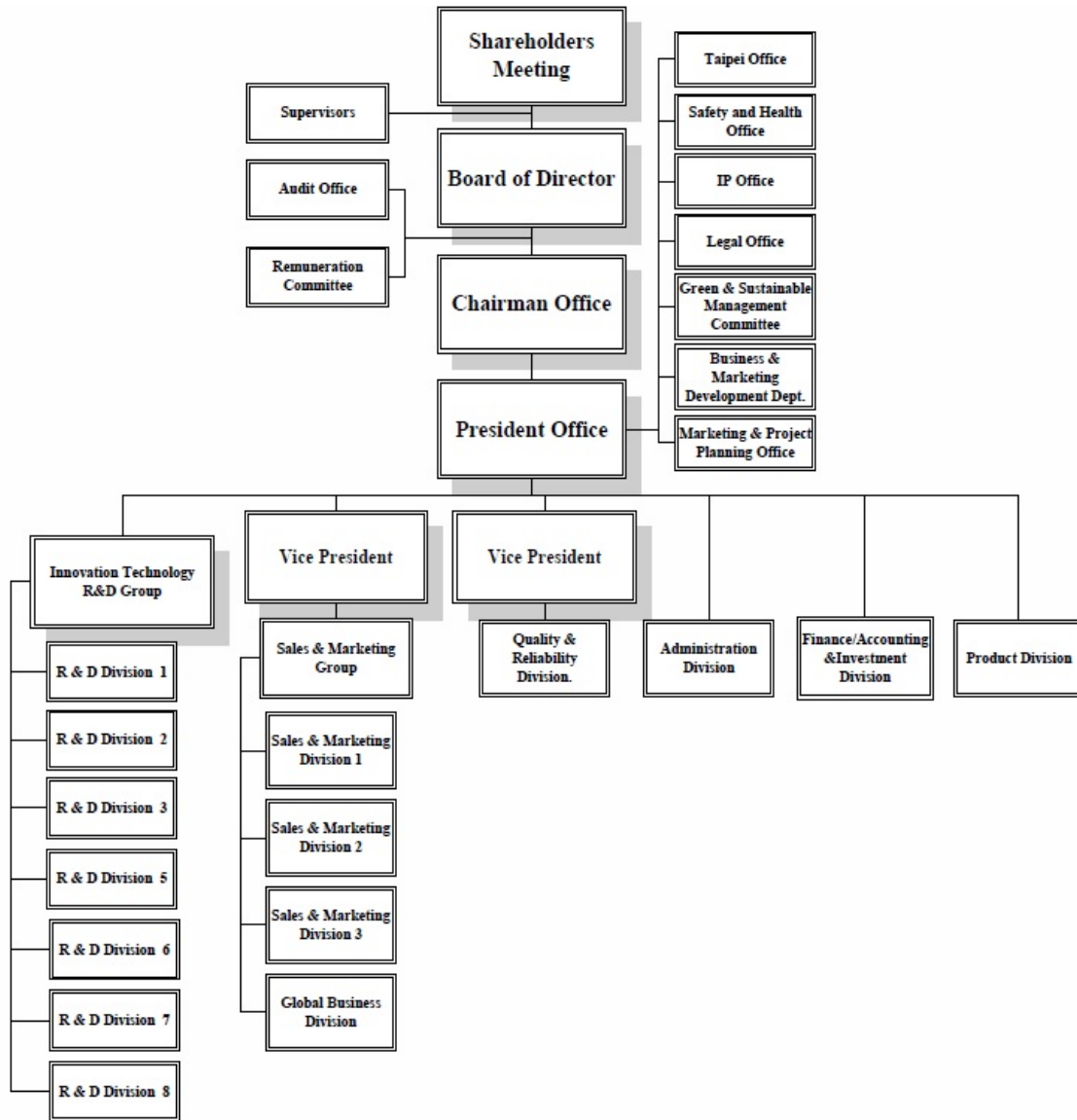


Year	Milestones
Jun, 2018	• Announced Flagship PCIe Gen3x4 NVMe SSD Controller PS5012-E12, Targeting High-End NAND Storage Applications Such as Servers, Gaming, and Edge Computing
Aug, 2018	• Introduced UFS 3.0 Controller PS8317, Focusing on 5G Mobile Devices
Sep, 2018	• Released Latest 3D QLC NAND Storage Solutions, Announcing The TB Era is Coming
Jan, 2019	• World First PCIe Gen4x4 NVMe SSD Controller PS5106-E16 Revealed, Keeping Leading the Industry
Feb, 2019	• Successfully Upgrading Company Targets, Massively Focusing on AIoT, Automotive, Servers and High-End NAND Storage Application Markets

# III. Corporate Governance Report

## 3.1 Organization

### 3.1.1 Organizational Chart



### 3.1.2 Major Corporate Functions

Department	Functions
Audit Office	Establishing, amending and reviewing the internal audit system; reviewing and monitoring the internal control system.
President Office	In charge of implementing and completing the jobs assigned by the board of directors; establishing the operation guidance and quality policy; in charge of the operating and decision-making of the company.
Taipei Office	In charge of the administrative affairs in Taipei area.
Safety and Health Office	In charge of the security and health affairs for the employees; ensuring the security of the work environment and ensuring the law conformance.
IP Office	In charge of the administration and review of the patents, trademarks and lawsuits, etc.
Legal Office	In charge of the administration and review of the contracts, insurances, lawsuits, etc.
Green & Sustainable Management Committee	In charge of the green products and the affairs of sustainability and environment protection, and ensuring the law conformance.
Business & Marketing Development Department	Establishing the pricing strategies for the products, coordinating the manufacturing of products, and managing the inventory.
Marketing & Project Planning Office	In charge of the research, analysis, development strategy and marketing planning of the market, supervise and execute.
Innovation, Technology R&D Group	Confirming the product specification with the marketing and sales department, and evaluating the feasibility of product technology; in charge of the design of software, firmware and hardware development; validating the design of new products and implementing the projects; in charge of the management and supervision of the chip outsourcing.
Sales and Marketing Group	Establishing the product development of products and the strategies of marketing and sales; establishing the pricing strategies for the products; analysis of the market and competitors; in charge of refunds, replenishments and replacements; exporting affairs.
Quality & Reliability Division	In charge of the acceptance/shipment, manufacturing processes, outsourcing processing, quality examination and analysis; introducing, maintaining and tracking the ISO system; implementing the green industry chain; scheduling the internal and external ISO audits; drafting and publishing the CSR reports.
Administration Division	Supervision and Management of the human resource affairs and general affairs; in charge of the planning, maintenance, security of the computer equipment; in charge of the plant affairs, plant security, employee welfare affairs, etc.
Finance/Accounting & Investment Division	In charge of the operation, administration and management of the accounting, finances, cost, investment and shareholding affairs.
Product Division	Establishing and implementing the manufacturing strategies and operation plans; monitoring, managing and analyzing the yield and quality of products; in charge of procurements.

## 3.2 Profile of Directors, Supervisors and Management Team

### 3.2.1 Profile of Directors and Supervisors

As of 14/4/2019

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Malaysia	Pua Khein Seng	M	2017.06.13	3 years	2000.10.24	4,557,972	2.31%	4,557,972	2.31%	806,262	0.41%	1,798,144	0.91%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 01】	N.A.	N.A.	N.A.
Director	Malaysia	Aw Yong Chee Kong	M	2017.06.13	3 years	2002.02.15	3,355,745	1.70%	3,355,745	1.70%	0	0.00%	0	0.00%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 02】	N.A.	N.A.	N.A.
Director	Taiwan	Kuang Tzung Horng	M	2017.06.13	3 years	2008.06.13	1,478,736	0.75%	1,408,736	0.71%	0	0.00%	0	0.00%	Master of Business Administration of Greenwich University Kogen Singapore Pte Ltd	【Note 03】	N.A.	N.A.	N.A.
Director	Taiwan	Hsu Chih Jen	M	2017.06.13	3 years	2011.06.15	1,080,185	0.55%	1,080,185	0.55%	0	0.00%	0	0.00%	Department of Computer Science of Chung Yuan Christian University Assistant Manager of Winbond Electronics Corp.	【Note 04】	N.A.	N.A.	N.A.
Director	Japan	Toshiba Memory Corporation	-	2017.09.27	3 years	2017.09.27	19,821,112	10.06%	19,821,112	10.06%	0	0.00%	1,000	0.00%	N.A.	【Note 05】	N.A.	N.A.	N.A.
	Japan	Hiroto Nakai 【Representative of Toshiba Memory Corporation】	M	2017.09.27	3 years	2012.01.16	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Bachelor of Earth Resources Engineering of Tohoku University Master of Engineering of Tohoku University Toshiba Corporation Storage& Electronic Devices Solutions Company, Memory Division, Senior Fellow	【Note 06】	N.A.	N.A.	N.A.
Independent Director	Taiwan	Wang Chen Wei	M	2017.06.13	3 years	2014.06.17	0	0.00%	0	0.00%	0	0.00%	0	0.00%	CEO, Quanta Computer Inc. President, Quanta Computer Inc.	【Note 07】	N.A.	N.A.	N.A.
Independent Director	Taiwan	Wang Shu Fen	F	2017.06.13	3 years	2003.11.12	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D. in Finance, University of Houston Director of Department of Information and Finance Management, National ChiaoTung University Director of EMBA in Taiwan, University of South Australia Review Committee Member of TWSE	【Note 08】	N.A.	N.A.	N.A.
Supervisor	Taiwan	Yang Jiunn Yeong	M	2017.06.13	3 years	2011.06.15	4,549,114	2.31%	4,549,114	2.31%	0	0.00%	0	0.00%	Postdoc of Graduate Institute of Electrical and Computer Engineering, NCKU Ph.D. of Graduate Institute of Electrical and Computer Engineering, NCKU Master of Graduate Institute of Electrical and Computer B.S. of Department of Electrical and Computer Engineering, NCKU	N.A	N.A.	N.A.	N.A.

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Supervisor	Taiwan	Wang Hwei Ming	M	2017.06.13	3 years	2008.06.13	171,750	0.09%	171,750	0.09%	0	0.00%	0	0.00%	MA in Industrial Management from Chung Hua University Executive Director of Taiwan Certified Public Accountant Association Chairman of Discipline Committee of Taiwan Certified Public Accountant Association Member of Discipline Committee of Taipei Certified Public Accountant Association Vice Chairman of Moral Committee of Taiwan Certified Public Accountant Joint Association	【Note 09】	N.A.	N.A.	N.A.
Supervisor	Taiwan	Chen Chiun Hsiou	M	2017.06.13	3 years	2014.06.17	0	0.00%	0	0.00%	0	0.00%	0	0.00%	MBA of Binghamton University, State University of New York Executive VicePresident of Rich Father International Holdings Lecturer of Chen An-Chi Educational Training Center Manager of General Management of Ichia Technology Inc. President of Kaechuan Corp. Marketing Specialist of Taiwan IBM Inc. Planner of CSEC	N.A.	N.A.	N.A.	N.A.

- 【Note 01】 CEO of Phison Electronics Corporation; Directors Representative and Chairman, Lian Xu Dong Investment Corporation, OSTEK Corporation, Phisontech Electronics Taiwan Corp., Memoryexchange Corporation; Directors Representative, Kingston Solutions Inc.; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited.
- 【Note 02】 President of Phison Electronics Corporation; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp.; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, Core Storage Electronic (Samoa) Limited.
- 【Note 03】 Vice-President of Phison Electronics Corporation; Directors Representative and Chairman, Emtops Electronics Corporation; Directors Representative, Microtops Design Corporation, OSTEK Corporation; Director, Phison Electronics Japan Corp., Power Flash (Samoa) Limited.
- 【Note 04】 Vice Technical President of Phison Electronics Corp., Director of Representative of PHISONTECH ELECTRONICS TAIWAN CORP..
- 【Note 05】 Director, Flash Partners, Ltd. ∙ Flash Alliance, Ltd. ∙ Flash Forward, Ltd. ∙ Solid State System Co., Ltd. ∙ Toshiba Memory Systems Co., Ltd. ∙ Toshiba Memory Advanced Package Corporation ∙ Toshiba Memory America, Inc. ∙ Toshiba Memory Europe GmbH ∙ Toshiba Memory Asia, Ltd. ∙ Toshiba Electronics (China) Co., Ltd. ∙ Toshiba Memory Singapore Pte. Ltd. ∙ Toshiba Memory Semiconductor Taiwan Corporation ∙ Toshiba Memory Taiwan Corporation ∙ Toshiba Memory Korea Corporation ∙ Microtops Design Corporation ∙ Toshiba Devices & Storage (Shanghai) Co., Ltd.
- 【Note 06】 Toshiba Memory Corporation, Memory Division, Senior Fellow.
- 【Note 07】 Director, Janus Technologies, Inc, GIVE543 CO., LTD., B Current Impact Investment Corp., Exyte AG, ; Independent Director, Casetek Holdings Limited, SIMPLO TECHNOLOGY CO., LTD. ; Director Representative, Industrial Technology Investment Corporation.
- 【Note 08】 Member of the Chinese Association of Valuation, Member of the Public Debt Management Committee in Hsinchu County, Member of the Public Debt Management Committee in Hsinchu City, United States Beta Gamma Sigma Honorary Member, Securities Analysts of R.O.C., Independent director, Original Biomedicals Co., Ltd.
- 【Note 09】 Director of Moores Rowland CPAs; Director of Taiwan Branch of Praxity Global Alliance of Independent Firms, Independent director, GIGABYTE TECHNOLOGY CO., LTD.

Major shareholders of the institutional shareholders

As of 14/4/2019

Name of Institutional Shareholders	Major Shareholders	Share Percentage
Toshiba Memory Corporation	Toshiba Memory Holdings Corporation	100%

Name of Institutional	Major Shareholders	Share Percentage
Toshiba Memory Holdings Corporation 【Note 1】	BCPE Pangea Cayman, L.P.	49.9%
	Toshiba Corporation	40.2%
	HOYA Corporation	9.9%

【Note 1】 The above information is taken from the Toshiba Memory Holding Corporation website.

**Professional qualifications and independence analysis of directors and supervisors**

As of 14/4/2019

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria 【Note 1】										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Pua Khein Seng			✓				✓	✓	✓	✓	✓	✓	✓	-
Aw Yong Chee Kong			✓				✓	✓	✓	✓	✓	✓	✓	-
Kuang Tzung Horng			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Hsu Chih Jen			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Toshiba Memory Corporation			✓	✓		✓	✓			✓	✓	✓		-
Toshiba Memory Corporation Representative: Hiroto Nakai			✓	✓	✓	✓	✓			✓	✓	✓		-
Wang, Chen Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Wang Shu Fen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Wang Huei Ming		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Yang Jiunn Yeong			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	-
Chen Chiun Hsiou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

【Note 1】 Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.2 Profile of Management Team

As of 14/4/2019

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
					CEO	Malaysia	Pua Khein Seng	M	2008.10.01	4,557,972			2.31%	806,262	0.41%
President	Malaysia	Aw Yong Chee Kong	M	2008.10.01	3,355,745	1.70%	0	0.00%	0	0.00%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 02】	N.A.	N.A.	N.A.
Vice President	Taiwan	Kuang Tzung Horng	M	2002.06.18	1,408,736	0.71%	0	0.00%	0	0.00%	Master of Business Administration of Greenwich University Kogen Singapore Pte Ltd	【Note 03】	N.A.	N.A.	N.A.
Vice President	Taiwan	Yeou Long Sheng	M	2017.09.20	0	0.00%	0	0.00%	0	0.00%	Vice President of Xintec Inc. Department Manager of Taiwan Semiconductor Manufacturing Co., Ltd. EMBA of Business, National Taiwan University. Master of University of Houston	N.A.	N.A.	N.A.	N.A.
Vice Technical President	Taiwan	Hsu Chih Jen	M	2012.08.01	1,080,185	0.55%	0	0.00%	0	0.00%	B.S. of Department of Information Engineering, Chung Yuan Christian University Assistant Manager of Winbond Electronics Corp.	【Note 04】	N.A.	N.A.	N.A.
Director of Administration Division	Taiwan	Liu Hsiu Chin	F	2009.10.31	30,427	0.02%	0	0.00%	0	0.00%	B.S. of Department of Finance Management, Chung Hua University Specialist of Silicon Motion Inc. Specialist of Advanced Scientific Corp.	【Note 05】	N.A.	N.A.	N.A.
Director of Product Division/R&D Division 3	Malaysia	Gan Wee Kuan	M	2012.02.24	99,052	0.05%	5,451	0.00%	0	0.00%	B.S. of Department of Electrical and Computer Engineering, NCTU	【Note 06】	N.A.	N.A.	N.A.
Director of Sales & Marketing Division 1	Taiwan	Tsai Shu Hui	F	2012.02.24	148,114	0.08%	3,115	0.00%	0	0.00%	B.S. of Department of Applied English, Fu Jen Catholic University English Teacher of Gram English Center Sales/Production Control of Silicon Motion Inc.	【Note 07】	N.A.	N.A.	N.A.
Director of Sales & Marketing Division 2	Taiwan	Tsay Huei Chen	F	2012.02.24	9,701	0.00%	169	0.00%	0	0.00%	B.S. of Department of Automatic Control Engineering, Feng Chia University University of Exeter, UK, MBA in International Management Teaching Assistant, department of Automatic Control Engineering, Feng Chia University Vice Director of Sales Department of Tripod Technology Inc.	【Note 08】	N.A.	N.A.	N.A.
Director of Finance/Accounting&Investment Division	Taiwan	Chiu Shu Hua	F	2012.12.01	0	0.00%	0	0.00%	0	0.00%	B.S. of Department of Economics, National Central University ViceAssistantOfficer of Deloitte & Touch CPAs	【Note 09】	N.A.	N.A.	N.A.
Director of R&D Division 1	Taiwan	Cheng Kuo Yi	M	2012.08.01	54,134	0.03%	1,558	0.00%	0	0.00%	Master of Graduate Institute of Electric Engineering, National Taiwan University of Science and Technology	【Note 10】	N.A.	N.A.	N.A.
Director of R&D Division 2/7	Taiwan	Ma Chung Hsun	M	2012.08.01	0	0.00%	0	0.00%	0	0.00%	Master of Graduate Institute of Physics, National Central University VicePresident of King Byte Information Corp.	【Note 11】	N.A.	N.A.	N.A.
Director of R&D Division 5	Taiwan	Lin Jui Chieh	M	2006.05.01	0	0.00%	0	0.00%	0	0.00%	Master of Graduate Institute of Electrical and Computer Engineering, NCTU Vice Manager of Faraday Technology Inc.	N.A.	N.A.	N.A.	N.A.
Director of R&D Division 6	Taiwan	Chan Ching Wen	M	2019.01.25	11,000	0.01%	0	0.00%	0	0.00%	Doctor of Graduate Institute of Electrical and Computer Engineering, NCKU Project Manager ofCED Technology Inc	N.A.	N.A.	N.A.	N.A.
Director of R&D Division 8	Malaysia	Chin Chieh Chuan	M	2018.10.24	0	0.00%	0	0.00%	0	0.00%	Master of Graduate Institute of Electrical and Computer Engineering, NCTU	N.A.	N.A.	N.A.	N.A.



- 【Note 01】 CEO of Phison Electronics Corporation; Directors Representative and Chairman, Lian Xu Dong Investment Corporation, OSTEK Corporation, Phisontech Electronics Taiwan Corp., Memoryexchange Corporation; Directors Representative, Kingston Solutions Inc.; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited
- 【Note 02】 President of Phison Electronics Corporation; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp.; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, Core Storage Electronic (Samoa) Limited.
- 【Note 03】 Vice-President of Phison Electronics Corporation; Directors Representative and Chairman of Emtops Electronics Corporation; Directors Representative of MicroTops Design Corporation, OSTEK Corporation; Director of Phison Electronics Japan Corp., Power Flash (Samoa) Limited.
- 【Note 04】 Director Representative of Phisontech Electronics Taiwan Corp.
- 【Note 05】 Supervisor Representative of Lian Xu Dong Investment Corporation.
- 【Note 06】 Director Representative of OSTEK Corporation
- 【Note 07】 Director of Power Flash (HK) Limited; Director Representative of Phisontech (Shenzhen) Limited.
- 【Note 08】 Director of Power Flash (HK) Limited.
- 【Note 09】 Director Representative of Lian Xu Dong Investment Corporation; Supervisor Representative of Phisontech Electronics Taiwan Corp. and Memoryexchange Corporation.
- 【Note 10】 Be appointed by EpoStar Electronics (BVI) Corporation as a Director Representative of EpoStar Electronics Corporation.
- 【Note 11】 Supervisor of MicroTops Design Corporation; Director Representative of Emtops Electronics Corporation.

### 3.3 Remuneration of Directors, Supervisors, President, and Vice Presidents

#### Remuneration of Directors (Independent Director Included)

Unit: NT\$ thousands

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) 【Note 2】		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) 【Note 2】		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay (B)		Directors Compensation (C) 【Note 1】		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay (F) 【Note 4】		Employee Compensation (G) 【Note 1】						
		The company	All 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	The company	Companies in the consolidated financial statements	Cash	Stock	Cash	Stock	The company	Companies in the consolidated financial statements	
Chairman	Pua Khein Seng	300	300	0	0	28,000	28,000	0	0	0.66%	0.66%	66,187	66,187	342	342	39,300	0	39,300	0	3.11%	3.11%	N.A.
Director	Aw Yong Chee Kong																					
Director	Kuang Tzung Horng																					
Director	Hsu Chih Jen																					
Director	Toshiba Memory Corporation																					
Director	Toshiba Memory Corporation Representative: Hiroto Nakai																					
Independent Director	Wang Chen Wei																					
Independent Director	Wang Shu Fen																					

Compensation to Directors of the most recent year for services provided for the companies in the financial statements (e.g. non-employee consultant position) except listed above: None.

【Note 1】 According to the resolutions made at the board of directors on Mar 21 of 2019, this company will remunerate the employees (NT\$ 550,000 thousand) and the directors/supervisors (NT\$ 40,000 thousand). Up to this time, the employee list of the remuneration and the amount of remuneration for directors/supervisors have not been decided. This table is a suggestion.

【Note 2】 Profit after tax: according to the individual financial statements, the profit after tax in 2018 is NT\$4,318,119 thousand.

【Note 3】 Up to this time, there is no employee stock option certificates, restricted employee stocks, and stocks of capital increase by cash in 2018.

【Note 4】 This is the severance pay required by the relevant laws.

Table of Range of Remuneration

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements (H)	The company	Companies in the consolidated financial statements (I)
Under NT\$ 2,000,000	0	0	0	0
NT\$2,000,001~NT\$5,000,000	Pua Khein Seng, Aw Yong Chee Kong, Kuang Tzung Horng, Hsu Chih Jen, Wang Chen Wei, Wang Shu Fen, Toshiba Memory Corporation		Wang Chen Wei, Wang Shu Fe, Toshiba Memory Corporation	
NT\$5,000,001~NT\$10,000,000	0	0	0	0
NT\$10,000,001~NT\$15,000,000	0	0	Kuang Tzung Horng, Hsu Chih Jen	
NT\$15,000,001~NT\$30,000,000	0	0	0	0
NT\$30,000,001~NT\$50,000,000	0	0	0	0
NT\$50,000,001~NT\$100,000,000	0	0	Pua Khein Seng, Aw Yong Chee Kong	
Over NT\$100,000,000	0	0	0	0
Total	7	7	7	7

## Remuneration of Supervisors

Unit: NT\$ thousands

Title	Name	Remuneration						Ratio of Total Remuneration(A+B+C) to Net Income (%) 【Note 2】		Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Bonus to Supervisors (B) 【Note 1】		Allowances (C)		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			
Supervisor	Yang Jiunn Yeong	0	0	12,000	12,000	0	0	0.28%	0.28%	N.A.
Supervisor	Wang Huei Ming									
Supervisor	Chen Chiun Hsiou									

【Note 1】 According to the resolutions made at the board of director meeting on Mar 21 of 2019, this company will remunerate the bonus to directors/supervisors total amount of NT\$ 40,000 thousand. Up to this time, the amount of remuneration for directors/supervisors have not been decided. This table is a suggestion.

【Note 2】 Profit after tax: according to the individual financial statements, the profit after tax in 2018 is NT\$4,318,119 thousand.

Table of Range of Remuneration

Range of Remuneration	Name of Supervisors	
	Total of (A+B+C)	
	The company	Companies in the consolidated financial statements (D)
Under NT\$ 2,000,000	0	0
NT\$2,000,001~NT\$5,000,000	Yang JiunnYeong, Wang Huei Ming, Chen Chiun Hsiou	Yang JiunnYeong, Wang Huei Ming, Chen Chiun Hsiou
NT\$5,000,001~NT\$10,000,000	0	0
NT\$10,000,001~NT\$15,000,000	0	0
NT\$15,000,001~NT\$30,000,000	0	0
NT\$30,000,001~NT\$50,000,000	0	0
NT\$50,000,001~NT\$100,000,000	0	0
Over NT\$100,000,000	0	0
Total	3	3

## Remuneration of the President and Vice Presidents

Unit: NT\$ thousands

Title	Name	Salary(A)		Severance Pay (B) 【Note 3】		Bonuses and Allowances (C) 【Note 4】		Employee Compensation (D) 【Note 1】				Ratio of total compensation (A+B+C+D) to net income (%) 【Note 2】		Compensation Paid to the President and Vice Presidents from an Invested Company Other than the Company's Subsidiary
		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	Stock	Cash	Stock			
CEO	Pua Khein Seng													
President	Aw Yong Chee Kong													
Vice President	Kuang Tzung Horng	20,667	20,667	450	450	51,681	51,681	40,500	0	40,500	0	2.62%	2.62%	N.A
Vice Technical President	Hsu Chih Jen													
Vice President	Yeou Long Sheng													

【Note 1】 According to the resolutions made at the board of directors on Mar 21 of 2019, this company will remunerate the employees total amount of NT\$ 55,000 thousand compensation. Up to this time, the employee list of the remuneration has not been decided. This table is a suggestion.

【Note 2】 Profit after tax: according to the individual financial statements, the profit after tax in 2018 is NT\$4,318,119 thousand.

【Note 3】 This is the severance pay required by the relevant laws.

【Note 4】 Up to this time, there is no employee stock option certificates, restricted employee stocks, and stocks of capital increase by cash in 2018.

Table of Range of Remuneration

Range of Remuneration	Name of President and Vice Presidents	
	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	0	0
NT\$2,000,001~NT\$5,000,000	0	0
NT\$5,000,001~NT\$10,000,000	Kuang Tzung Horng, Chih Jen Hsu, Yeou Long Sheng	
NT\$10,000,001~NT\$15,000,000	0	0
NT\$15,000,001~NT\$30,000,000	0	0
NT\$30,000,001~NT\$50,000,000	Pua Khein Seng, Aw Yong Chee Kong	
NT\$50,000,001~NT\$100,000,000	0	0
Over NT\$100,000,000	0	0
Total	5	5

## Remuneration of Management Team

As of 21/3/2019; Unit: NT\$ thousands

	Title	Name	Employee Compensation - in Stock (Fair Market Value)	Employee Compensation - in Cash 【Note 1】	Total	Ratio of Total Amount to Net Income (%) 【Note 2】
Executive Officers	CEO	Pua Khein Seng	0	60,500	60,500	1.40%
	President	Aw Yong Chee Kong				
	Vice President	Kuang Tzung Horng				
	Vice President	Yeou Long Sheng				
	Vice Technical President	Hsu Chih Jen				
	Director of Administration Division	Liu Hsiu Chin				
	Director of Product Division/R&D Division 3	Gan Wee Kuan				
	Director of Sales & Marketing Division 1	Tsai Shu Hui				
	Director of Sales & Marketing Division 2	Tsay Huei Chen				
	Director of R&D Division 1	Cheng Kuo Yi				
	Director of Innovation Technology R&D Group-R&D Division 2/7	Ma Chung Hsun				
	Director of Innovation Technology R&D Group-R&D Division 5	Lin Jui Chieh				
	Director of Finance/Accounting&Investment Division	Chiu Shu Hua				
	Director of Innovation Technology R&D Group-R&D Division 6	Chan Ching Wen				
	Director of Innovation Technology R&D Group-R&D Division 8	Chin Chieh Chuan				

【Note 1】According to the resolutions made at the board of directors meeting on Mar 21 of 2019, this company will remunerate the employees total amount of NT\$ 55,000 thousand compensation. Up to this time, the employee list of the remuneration has not been decided. This table is a suggestion.

【Note 2】Profit after tax: according to the individual financial statements, the profit after tax in 2018 is NT\$4,318,119 thousand.

Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents should be illustrated based on the ratio of remuneration to net income, remuneration resolution process and the relevance between performance and the future risk.

The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Title Category	Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)				Percentage of change of The company	Percentage of change Companies in the consolidated financial statements
	2017		2018			
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements		
Directors	2.58%	2.58%	3.11%	3.11%	0.53%	0.53%
Supervisors	0.31%	0.31%	0.28%	0.28%	(0.03%)	(0.03%)
President and Vice President	1.88%	1.88%	2.62%	2.62%	0.74%	0.74%

Note: The Profit after tax of 2017 and 2018 are NT\$5,760,972 thousand and NT\$4,318,119 thousand, respectively.

- According to the articles of the company, the following illustrations are made.

According to the Article 19 of the company, if the company earns a profit, 8% to 19% of it should be used as the employee remuneration and less than 1.5% of it could be used as the Directors/Supervisors remuneration. If the company is still in accumulated loss, the profit should be used to compensate this loss first.

The employee remuneration can be rewarded in stocks or cash to the employee if the criteria are met. The Director/Supervisor remuneration can only be rewarded in cash.

In the first section, profit means the pre-tax income before the employee remuneration and the Director/Supervisor remuneration are rewarded.

The employee and Director/Supervisor remuneration should be decided in the board of directors with the presence of two-thirds of directors and the agreement of half of the directors. These decisions should be reported to the shareholders' meeting.

The profit of this company in 2018 is NT\$ 5,590,352,737 (profit means the pre-tax income before the employee remuneration and the Director/Supervisor remuneration are rewarded). The board of directors on Mar 21, 2019 decided that this company will remunerate the employees (NT\$

550,000,000 in total; 9.84% of the profit) and the directors/supervisors (NT\$ 40,000,000 in total; 0.72% of the profit). The remuneration will be rewarded in cash and these decisions will be reported to the regular shareholders' meeting on June 12 of 2019.

- The analysis and comparison of remuneration for Directors, Supervisors, Presidents and Vice Presidents in the most recent two fiscal years is listed in this section.

The percentage of total payment of remuneration of directors to individual financial reports in 2018 is growth compared with 2017. Mainly due to the Company increased the remuneration of directors because while the market pricing sharply slipped the directors still performed a well result by stable profitability and operation. The percentage of total payment of remuneration of supervisors to individual financial reports in 2018 is decreased compared with 2017 is because of the net profit of 2018 is less than 2017. The percentage of total payment to the compensation of key management to individual financial reports in 2018 is increased compared with 2017 is due to the Company increased the compensation of key management because the key management contributed a well result by stable profitability and operation in 2018.

The percentage of total payment of remuneration of directors to individual financial reports in 2018 is growth compared with 2017. Mainly due to the Company increased the remuneration of directors because while the market pricing sharply slipped the directors still performed a well result by stable profitability and operation. The percentage of total payment of remuneration of supervisors to individual financial reports in 2018 is decreased compared with 2017 is because of the net profit of 2018 is less than 2017. The percentage of total payment to the compensation of key management to individual financial reports in 2018 is increased compared with 2017 is due to the Company increased the compensation of key management because the key management contributed a well result by stable profitability and operation in 2018.

Ratio of remuneration to net income, remuneration resolution process and the relevance between performance and the future risk.

- Ratio of Directors/Supervisors remuneration to net income, remuneration resolution process and the relevance between performance and the future risk: The remuneration for Directors, Supervisors, Presidents and Vice Presidents are decided according to their involvement and contribution, as well as the standards in this industry.
- Ratio of President/Vice President remuneration to net income, remuneration resolution process and the relevance between performance and the future risk: The policy of remuneration for President/Vice President is to consider the balance of salary and remuneration, the

standards in this industry, the responsibility of the positions and their contribution to the business goals. The procedure of deciding remuneration is to consider the overall performance of the company. The time and job responsibility of the employees are also considered. Other factors include goal accomplishment, performance on other positions, salary of equivalent positions and the

financial status of the company. The remuneration of management team will be reviewed by the salary and remuneration committee and submitted to board of directors for discussion and approval.

### 3.4 Implementation of Corporate Governance

#### Board of Directors

A total of 9 meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows:

Title	Name	Actual Attendance	Commission Letter Attendance	Percentage of Actual Attendance(%)	Remark
Chairman	Pua Khein Seng	9	0	100.00%	N.A
Director	Aw Yong Chee Kong	5	3	55.56%	N.A
Director	Kuang Tzung Horng	8	0	88.89%	N.A
Director	Hsu Chih Jen	9	0	100.00%	N.A
Director	Representative: Hiroto Nakai; Toshiba Memory Corporation	2	7	22.22%	N.A
Independent Director	Wang Shu Fen	9	0	100.00%	N.A
Independent Director	Wang Chen Wei	6	3	66.67%	N.A
Supervisor	Yang Jiunn Yeong	5	0	55.56%	N.A
Supervisor	Wang Huei Ming	9	0	100.00%	N.A
Supervisor	Chen Chiun Hsiou	9	0	100.00%	N.A

The attendance of Independent director in 2018 were as follows:

◎ : Actual Attendance ☆ : Commission Letter Attendance \* : Absence

2018	7 <sup>th</sup> Meeting of The Eighth Term	8 <sup>th</sup> Meeting of The Eighth Term	9 <sup>th</sup> Meeting of The Eighth Term	10 <sup>th</sup> Meeting of The Eighth Term	11 <sup>th</sup> Meeting of The Eighth Term	12 <sup>th</sup> Meeting of The Eighth Term	13 <sup>th</sup> Meeting of The Eighth Term	14 <sup>th</sup> Meeting of The Eighth Term	15 <sup>th</sup> Meeting of The Eighth Term
Wang Shu Fen	◎	◎	◎	◎	◎	◎	◎	◎	◎
Wang Chen Wei	☆	◎	☆	◎	☆	◎	◎	◎	◎

Other mentionable items:

1.If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:

(1) Matters referred to in Article 14-3 of the Securities and Exchange Act. :

Date of Board of Directors Meeting	Period	Content of motion	Independent director's opinion	The company handles the opinions of independent directors
2018.01.31	7th Meeting of The Eighth Term	The List of first issuing Employee Stock Option under the "FY2017 Employee Stock Option Plan" for managerial officers	Proposal was approved as proposed	The motion was approved.
		The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Proposal was approved as proposed	The motion was approved.
2018.03.16	8th Meeting of The Eighth Term	Amendment to the "Authorizing Table"	Proposal was approved as proposed	The motion was approved.
		Proposal for the issuance plan of private placement for common shares	Proposal was approved as proposed	The motion was approved.
2018.05.11	10th Meeting of The Eighth Term	To approve the revisions of internal control systems to "Organization Articles of the Employee Welfare Committee" and "Implementation Rules of the Employee Welfare Committee"	Proposal was approved as proposed	The motion was approved.
2018.07.27	12th Meeting of The Eighth Term	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	Proposal was approved as proposed	The motion was approved.
2018.11.13	15th Meeting of The Eighth Term	The proposal of "FY2018 Employee Stock Option Plan"	Proposal was approved as proposed	The motion was approved.
		The proposal of the "2019 Annual Audit Plan"	Proposal was approved as proposed	The motion was approved.
		Amendment to the "Authorizing Table"	Proposal was approved as proposed	The motion was approved.

(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 Board of directors	content of motion	Name of Director	Causes for Avoidance	Voting or Not 【Note 1】
2018.01.31	The List of first issuing Employee Stock Option under the "FY2017 Employee Stock Option Plan" for managerial officers	Director of Kuang Tzung Horng 、Hsu Chih Jen	Interested party of the discuss 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 of Pua Khein Seng、Aw Yong Chee Kong、Kuang Tzung Horng、Hsu Chih Jen	Interested party of the discuss motion	No
2018.07.27	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	Director of Pua Khein Seng、Aw Yong Chee Kong、Kuang Tzung Horng、Hsu Chih Jen、Toshiba Memory Corporation; Independent Director of Wang Shu Feng、Wang Chen Wei	Interested party of the discuss motion	No

【Note 1】 Directors who are in interest conflict have avoided the discussions and voting.

3. 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 "Regulations of Board of directors Proceedings" of this company. There were no major defects and irregularities.



B. Since 2015, this company started the questionnaire of directors/supervisors evaluation based on the Article 6 of "Self-evaluation or peer-evaluation of the board of directors of ○○ Co., Ltd.". Based on these evaluations, as well as "Performance evaluation of directors/supervisors", "attendance of directors/supervisors to board of directors", and "Advanced trainings of directors/supervisors", the performance of directors and supervisors were evaluated to implement company governance and promote the functions and efficiency of board of directors.

C. Advanced trainings of directors/supervisors: this company arranges advanced trainings every year for directors and supervisors to obtain relevant information, which benefits their core values, professional advantages and capabilities. Please refer to page 50- page 52 of this annual report for further information about the advanced trainings of directors/supervisors.

(2) Evaluation of the implementation:

A. This company reveals its finance and business information on the Taiwan Stock Exchange Market Observation Post System to ensure the information disclosure; the attendance of directors/supervisors to board of directors and the advanced trainings of directors/supervisors were also disclosed on the Taiwan Stock Exchange Market Observation Post System to disclose the information and improve the governance of this company.

Attendance of Supervisors at Board of directors

A total of 9 meetings of the Board of Directors were held in the 2018. The attendance of supervisors was as follows:

Title	Name	Actual Attendance	Percentage of Actual Attendance (%)	Remark
Supervisor	Yang Jiunn Yeong	5	55.56%	N.A
Supervisor	Wang Huei Ming	9	100.00%	N.A
Supervisor	Chen Chiun Hsiou	9	100.00%	N.A

Other mentionable items:

1. Composition and responsibilities of supervisors:

(1) Communications between supervisors and the Company's employees and shareholders:

The supervisor can understand the actual operation of the company through the Board of Directors or through the audit reports from the audit department or through checking the company's financial·business information at any time. They can ask the relevant officers to provide the reports. The company's employee, shareholders, stakeholder and major shareholders can communicate with supervisors by mails or e-mails.

(2) Communications between supervisors and the Company's chief internal auditor and CPA: The Company internal audit office provides the supervisors with the internal auditing reports on a regular basis, as well as reporting the latest auditing results to the board meetings. Supervisors should check the financial and operational status as needed. If supervisors have any questions about the relevant operations, they should communicate with the departmental managers immediately to find the solutions to review and improve the status. As for the communication with CPAs, if supervisors have any questions about the financial and operational status, they should communicate with the CPAs of this company and supervise the departmental managers to find the solutions to review and improve the status.

2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of the meetings, sessions, contents of motion, resolutions of the directors' meetings and the company's response to the supervisor's opinion should be specified: None.

Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1.Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?		V	This Company has not established the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”	“Corporate Governance Best-Practice Principles” will be established based on the actual needs in the future.
2.Shareholding structure & shareholders’ rights				
(1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		(1). This company did not establish an internal operating procedure. However, to protect the shareholders' rights, spokesman, deputy spokesman, shareholders service dept. and legal office have been established to respond to shareholders' suggestions and conflicts.	(1). No major deviation.
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(2). This company possesses the list of its shareholders from the Stock Transfer Agent to know the shares held by directors, supervisors, management team and major shareholders (over 10% of the stocks). This company has a good communication with them.	(2). No major deviation.
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		(3). This company has established the "Regulations of finance and business operations between the Company and its affiliates" and the internal control system to control the risks.	(3). No major deviation.
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		(4). This company has established "Regulation of preventing internal transactions" to stop any behaviors of internal transaction. Regular internal trainings are also held to stop any behaviors of internal transaction.	(4). No major deviation.
3. Composition and Responsibilities of the Board of Directors				

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
(1) Does the Board develop and implement a diversified policy for the composition of its members?	V		<p>(1). Although this company does not have a diversified policy for the composition of its members. However, in practice, the Company board of directors invites professionals with different backgrounds to serve, in order to make the board members more diversified, the directors of the Company have the necessary knowledge, skills and literacy to carry out their business, and each has their own special expertise in their respective fields. It has certain benefits for the company's development and operation. The Company's current board of directors are seven seats.</p> <p>1. There are one female director and be independent director. The female accounted for 14.29% of all directors; the average age is 67 years old; the male member is 85.71%; the average age is 53.83 years old. The average age of all directors is 55.7 years old.</p> <p>2. In addition to Taiwanese directors, there is a legal person and legal representative in Japan, with the company's leading position in the industry.</p> <p>3. Directors Member : Composed of MA in Electronic Control, National Chiao Tung University, Master of Business Administration of Greenwich University, Department of Computer Science of Chung Yuan Christian University, Toshiba Memory Corp. and Bachelor of Earth Resources Engineering of Tohoku University.</p> <p>4. Independent director members: : Composed of Ph.D. in Finance, University of Houston and CEO, Quanta</p>	(1). No major deviation.

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			Computer Inc.	
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		<p>(2).In addition to the remuneration committee required by the relevant laws. Currently setting up a Green and Sustainable Management Committee with the following main functions and powers. We will establish other functional committees based on the operation and actual needs.</p> <ol style="list-style-type: none"> <li>1. The promotion and maintenance of ISO9001 / ISO14001 / OHSAS18001 / Sony GP, OEM GP</li> <li>2. The head of product design serves as the agent of management representative.</li> <li>3. Establish the hazardous substance management procedure and audit ISO management activities of the relevant units.</li> <li>4. Green management task force reviewed Laws and regulations every season to ensure that the company is in compliance with the law.</li> <li>5. Temporary meetings may be convened at any time in response to customers' environmental requirements and rules. The appropriateness of the management procedure is also discussed to ensure that company products and services can satisfy customer requirements.</li> <li>6. Maintenance of internal database and development of</li> </ol>	(2). No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>standard teaching materials for ISO activities implementation,</p> <p>7. Outside lab testing of hazardous substance content in Phison's main products is carried out every year.</p> <p>8. Organize two regular new sales green regulations training classes.</p>	
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	V		(3). This company reviews the performance of board of directors’ on a regular basis to improve the governance, but there is no standard policy to do it now. Since 2015, this company started the questionnaire of directors/supervisors evaluation based on the Article 6 of "Self-evaluation or peer-evaluation of the board of directors’ of ○○ Co., Ltd.". Based on these evaluations, as well as "Performance evaluation of directors/supervisors", "attendance of directors/supervisors to board of directors’", and "Advanced trainings of directors/supervisors", the performance of directors and supervisors were evaluated to implement company governance and promote the functions and efficiency of board of directors’.	(3). No major deviation.
(4) Does the company regularly evaluate the independence of CPAs?	V		(4). This company evaluates the independence on a regular basis. On Jan 25 of 2019, the board of directors came to a conclusion that the independence and eligibility of CPAs are qualified.	(4). No major deviation.
4. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	V		<p>This company have some departments to take charge of the following affairs:</p> <p><u>1. Handling corporate registration and amendment registration :</u></p> <p>The Shareholders Service Dept. will be in charge of company registration and change registration based on the resolutions from board of directors</p>	No major deviation.

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>or shareholders meeting and other related laws.</p> <p><u>2.Handling matters relating to board of directors’ and shareholders meetings according to laws, and assisting the company with compliance with laws and regulations governing such meetings and producing minutes of board of directors’ and shareholders meetings :</u></p> <p>According the Article 4 of the board of director’s proceedings, the Shareholders Service Dept. is the unit to administer the meeting proceedings. So, the Shareholders Service Dept. should collect all the motions from all other departments and submit them to the board of directors for discussion.</p> <p>This company commits Horizon Securities to conduct the affairs of shareholders' meetings.</p> <p><u>3.Updatest laws and regulations relevant to company operation:</u></p> <p>The board chairman of this company will appoint relevant departments and legal office to understand the effects of most update laws and regulations on the operation of this company.</p> <p><u>4. Assist Directors and Supervisors abiding by the laws:</u></p> <p>In the re-election year, this company provides new directors (independent directors included) and supervisors with the handbook of laws and regulations. In addition, at least 6 hours of trainings will be provided for director and supervisor to understand the laws and regulations.</p> <p><u>5.Affairs relating to investor relations :</u></p> <p>To ensure the shareholders' rights, this company has spokesman, deputy spokesman, shareholders</p>	

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			service dept. and legal office to deal with the suggestions and conflicts. This company also establishes an IR department to answer the questions from shareholders. Shareholders can go to company website and find the "stockholders' area" to submit the suggestions and opinions.	
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		<p>This company communicates well with its employees, customers, suppliers, shareholders, official organizations and local communities and respects their rights. Contact information of the spokesman and departments is listed on the website. In addition, there is another section on the website for those who question about some issues of corporate social responsibility. The following channels are for communication with all parties:</p> <p><u>1. For employees:</u> This company has mailboxes for them to send opinions. In addition, forums and opinions survey are held on a regular basis to communicate with employees.</p> <p><u>2. For customers:</u> Phone calls and emails are sent every day. Customer satisfaction surveys are conducted every year. Customer telephone lines are set up for communication.</p> <p><u>3. For suppliers:</u> There is an online platform for suppliers and evaluations are conducted every half year.</p> <p><u>4. For shareholders:</u> Shareholders can express their opinions on shareholders' meetings or by mails. The spokesman of this company will deal with these issues.</p> <p><u>5. For official organizations:</u> Communications are conducted by seminars and official documents.</p> <p><u>6. For local communities:</u></p>	No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			This company can accept the complaints from local communities at any time and will participate in community activities and charity event.	
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		This company commits Horizon Securities to conduct the stock affairs.	No major deviation.
7. Information Disclosure				
(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		(1) This company posts its financial and business information on the Market Observation Post System and establishes the website(www.phison.com) to disclose relevant information.	(1) No major deviation.
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V		(2)a. This company has established Chinese, English, Japanese and Simplified Chinese website. b. The website is updated on a regular basis. c. Contact information of spokesman : antonioyu@phison.com kuoting_lu@phison.com d. Refer to Market Observation Post System for relevant information.	(2) No major deviation.
8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		(1) <u>Status of employee rights and employee wellness:</u> This company provides employees with healthy, secure and human-based working environment based on the laws and internal administration measures. There are principles and rules about employment, promotion, reward/punishment, welfare, payroll, training, etc. to offer a fair competition and code of conduct. This company has established employee welfare committee, sexual harassment appeal committee, pension committee, etc. to protect employees' rights and welfare. Since 2011, this company has committed the "Hsinchu Lifeline	No major deviation.



Evaluation Item	Implementation Status		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
			<p>Association/Employee Assistance Service Center", after Sep 2018 was changed by “Newmind EAP Consultation Co., Ltd” to help employees solving all kinds of problems.</p> <p><u>(2). Investor Relationship:</u> This company has dedicated personnel to solve the problems for the investors and will hold juridical person seminar to illustrate the business on a regular basis. Investors may contact the IR department of this company by phone or email for their questions.</p> <p><u>(3). Supplier Relationship:</u> This company keeps a good relationship with the suppliers and has the policy and regulations to communicate with suppliers. This company also signs contracts with suppliers to protect rights of both parties.</p> <p><u>(4). Stakeholders' rights:</u> This company has established the "Regulations of financial business between affiliated companies" and the "Management operation of transaction with stakeholders" to protect the rights of stakeholders and this company. This company also signs contracts with suppliers to protect rights of both parties.</p> <p><u>(5). Advanced training of directors and supervisors:</u> The advanced trainings of directors and supervisors in 2018 were listed in page 50-page 52 of the annual report. Directors and supervisors of this company all have their expertise in their area. This company will arrange advanced trainings for directors and supervisors based on the laws and regulations in Taiwan.</p> <p><u>(6). Status of risk management policies and risk evaluation:</u> This company has measures and</p>

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>evaluation standard to manage and evaluate risks.</p> <p>A. Financial risk (Finance and Accounting Department)</p> <p>a. To evaluate the effects of interest, exchange rate, inflation on the net income.</p> <p>b. To evaluate the policy of high risk and high leverage investment, loan, endorsement and derivative financial products and to evaluate the main causes of profit or loss.</p> <p>B. Legal risk (Legal Affair Office)</p> <p>a. The major risks are lawsuits and contract disputes. Reviewing the contracts can lower the risks.</p> <p>b. To analyze the causes of the disputes and to try to settle the disputes and to seek external legal assistance for resolving the disputes.</p> <p>C. Intellectual property risk(Intellectual Property Office)</p> <p>a. By extensive patent strategy, this company protects the rights of itself and customers.</p> <p>b. To abide by the relevant laws of intellectual property and to claim the rights for protecting intellectual rights.</p> <p>D. Information risk(Information Department)</p> <p>a. To plan information security polity and all kinds of information security measures to lower the risk of information security.</p> <p>b. For the purpose of ensuring effective information security system, knowledge and response measures of information security will be notified by emails, posts and monthly meetings.</p> <p>c. The Company established the "Information Security</p>	

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>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. The committee, has obtained the BSI British Standards Association ISO27001 international security certificate, will hold reviewing meeting annually to improve information security and applicability of evaluation, keeps strengthen colleagues and organization over information security protection and establishes joint defense mechanism with vendors or partners in future.</p> <p>E. Environment risk(Plant Affairs Department)</p> <p>a. To evaluate the effects of operations on the natural environment, security and employee health.</p> <p>b. By continuous hazardidentifications and risk evaluation, this company can control the risk at the tolerant level to protect environment from hazards.</p> <p><u>(7) Implementation of customer service:</u> The company’s website is provide contact information for customers and dedicated area for stakeholders to send complaints.</p> <p><u>(8) Buying liability insurances for directors and supervisors:</u></p>	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			According to the Article 16.2 of the company, "This company should buy liability insurances for directors and supervisors during their terms to cover the damage due to their business operation", this company may buy the liability insurances for directors and supervisors every year. After buying insurances, this should be reported to the board of directors meeting and posted on the Taiwan Stock Exchange Market Observation Post System. Please refer to page 54 of the annual report.	

9. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.

Number	Evaluation Item	Improvement	Actions to improve
1.2	Does the company on the day of the shareholders' meeting, the results of the shareholders' consent, opposition and waiver of each proposal will be entered into the designated Internet information reporting system?	The company has entered into the designated Internet information reporting system on the date of the 2018 annual shareholders' meeting (2018.06.08) on the date of approval, opposition and waiver of the shareholders of each proposal.	N.A.
2.11	Does the company explain in detail the reasons for discussion and resolution of the Compensation and Remuneration Committee, and the company's handling of member opinion on the company annual report?	The company has disclosed the reasons for the discussion and resolution of the Remuneration Committee and the company's handling of the opinions of the members in the 2018 annual report.	N.A.
2.15	Does the company disclose the communication with independent directors, internal audit director and CPAs (financial reports, financial status, etc.) on the website?	The independent directors and accountant of the company has communicated in a meeting manner for the annual corporate financial reports and financial business status etc.	The company will be improving on the criteria of the assessment indicators.

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
2.22	Does the company evaluate the performance of the board of directors' on a regular basis (at least once per year) and disclose the result on the company website or annual report?		The company started the questionnaire of directors/supervisors evaluation based on the Article 6 of "Self-evaluation or peer-evaluation of the board of directors' of ○○ Co., Ltd." in 2015. Based on these evaluations, as well as "Performance evaluation of directors/supervisors", "attendance of directors/supervisors to board of directors'", and "Advanced trainings of directors/supervisors", the performance of directors and supervisors were evaluated to implement company governance and promote the functions and efficiency of board of directors'.	The company will be improving on the criteria of the assessment indicators.
2.4	Does the company establish information security risk management framework, set information security policies and specific management plans on the company website or annual report?		The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation. The committee, has obtained the BSI British Standards Association ISO 27001 international security certificate, will hold reviewing meeting annually to improve information security and applicability of evaluation.	N.A.
3.5	Does the company upload the English annual financial report 7 days before the regular shareholders' meeting?		The company will upload the English annual financial report 7 days before the 2019 regular shareholders' meeting.	The company will be improving on the criteria of the assessment indicators.
3.20	Does the company invited (self) to hold at least two road shows, and the first two interpretations of the road shows will be separated by more than three months?		The company has hold two time road shows on April 27 2018 and September 4 2018, the two times road shows are separated by more than three months	N.A.
4.9	Does the company disclose the employee welfare, retirement system and the implementation on the website?		The company has disclosed the employee welfare, retirement system, and the implementation on the website from 2017.	N.A.

## Composition, Responsibilities and Operations of the Remuneration Committee

### Professional Qualifications and Independence Analysis of Remuneration Committee Members

As of 14/4/2019

Title 【Note2】	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria 【Note2】								Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has approved a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Wang Shu Fen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2	【Note 3】
Independent Director	Wang Cheng Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Other Member	Chung Wen Chiu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

【Note 1】 Please fill in the Title box as directors, independent directors or other member.

【Note 2】 Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

【Note 3】 The Committee shall exercise the care of a good administrator to faithfully perform the following duties and present its recommendations to the board of directors for discussion.

However, recommendations regarding compensation for supervisors may be submitted to the board of directors for discussion only when the board of directors is expressly authorized to resolve on that matter by the articles of incorporation or by a resolution of the shareholders meeting :

1. Periodically reviewing this Charter and making recommendations for amendments.
2. Establishing and periodically reviewing the annual and long-term performance goals for the directors, supervisors, and managerial officers of this Corporation and the policies, systems, standards, and structure for their compensation.
3. Periodically assessing the degree to which performance goals for the directors, supervisors, and managerial officers of this Corporation have been achieved, and setting the types and amounts of their individual compensation.

#### Attendance of Members at Remuneration Committee Meetings

There are 3 members in the Remuneration Committee.

The terms of this section of Remuneration Committee: June 21, 2017 to June 12, 2020. A total of 6 Remuneration Committee meetings were held in 2018. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Convener	Wang Shu Fen	6	0	100.00%	N.A.
Committee Member	Wang Cheng Wei	4	2	66.67%	N.A.
Committee Member	Chung Wen Chiu	6	0	100.00%	N.A.

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration 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 remuneration committee's opinion: None.
2. Resolutions of the remuneration committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

If any of the following date of the remuneration committee meetings, discussion proposal, resolution and the company handles the opinions of remuneration committee meetings' member

Date	Discussion Proposal	Resolution	The company handles the opinions of Remuneration Committee Meetings' member
2018.01.23 (2nd Meeting of The Third Term)	The List of first issuing Employee Stock Option under the "FY2017 Employee Stock Option Plan" for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	Amendment to the "Payroll Regulation"	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the	Members have no opinion

Date	Discussion Proposal	Resolution	The company handles the opinions of Remuneration Committee Meetings' member
		board of director's meeting.	
2018.03.08 (3rd Meeting of The Third Term)	The consideration of the remuneration of board of directors and the employee compensation for managerial directors during 2017	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	Review the modified proposal for the Compensation of Performance Incentive Bonus during second half of 2017 for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	Review the amendment to the "Payroll Regulation" for Employees"	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.05.11 (4th Meeting of The Third Term)	The performance evaluation for managerial officers as well as the proposal for the fixed annual salary adjustment for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	To approve the revisions to the partial articles of Regulations for 「Employee Meal Management」	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.06.07 (5th Meeting of The Third Term)	Review the Special Performance Evaluation for managerial officers as well as the proposal for the Compensation of Project Performance Incentive Bonus during Q1 of 2018 for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.07.27 (6th Meeting of The Third Term)	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	The meeting schedule of the Remuneration Committee for the year 2019	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.10.24 (7th Meeting of The Third Term)	Reviewing the new managerial officers, to be submitted by the company, for the remuneration pre-examination executed by the Remuneration Committee	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion



Date	Discussion Proposal	Resolution	The company handles the opinions of Remuneration Committee Meetings' member
	Review the Remuneration of the managerial officers to be newly appointed	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion

### Corporate Social Responsibility

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
1. Corporate Governance Implementation				
(1). Does the company declare its corporate social responsibility policy and examine the results of the implementation?		V	(1). This company has not established its corporate social responsibility policy.	(1). This company will establish its corporate social responsibility policy in the future based on actual needs.
(2). Does the company provide educational training on corporate social responsibility on a regular basis?	V		(2). This company will illustrate its business ideals and corporate social responsibility in all meetings and hold educational trainings course on an irregular basis.	(2). No major deviation.
(3). Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	V		(3). This company has established the dedicated "Green and Sustainability Management Committee" to fulfill corporate social responsibility.	(3). No major deviation.
(4). Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		(4). This company has established the work rule and the regulations of Payroll 、 Employees performance 、 Reward/punishment and other relevant, etc. for employees to follow and reward to employees , the company is indeed implemented.	(4). No major deviation.
2. Sustainable Environment Development				

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(1). Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		(1). This company has established an ISO committee to enforce all kinds of environment protection policies and measures, environmental health and safety policies, energy management policies, ISO14001 Environment Management system, greenhouse gas examination, green product and green supply chain. All of the reusable items are collected and sent to recycling firms for reuse to protect our environment.	(1). No major deviation.
(2). Does the company establish proper environmental management systems based on the characteristics of their industries?	V		(2). This company has approved the standard of ISO 14001 Environmental management in 2008. This company also abides by the ISO 14001 standard to build the environmental management system and follow the laws of environmental protection and respect the commitment to customers. Considering the impacts on environment, this company has established goals and projects and collaborate with affiliates to improve the environmental protection, save energy and reduce wastes to protect our environment.  This company has approved the standard of OHSAS 18001 Occupational Health and Safety Assessment Series. This company abides by the standard of OHSAS 18001 and follows the laws of occupational health and safety and respect the committee to customers. Considering the impacts on environment, this company has established goals and projects and collaborate with affiliatesto lower the risks of occupational health and safety. This	(2). No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			company has an internal protocol of environmental health and safety, such as air pollution control, water pollution control, waste control, chemical control, noise pollution control. These measures can reduce the environmental pollution and the risks of occupational health and safety.	
(3). Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		(3). This company has continuously examined the greenhouse gases since 2011 to investigate the consumed resources and produced greenhouse gases. These results may help this company to evaluate the potential risk and opportunity caused by climate change. This company made great efforts to integrate the ISO management system and the laws of environmental health and safety into the daily operations. This company also managed to improve the management of non-hazardous material and prohibit the use of hazardous material to meet the law requirements of WEEE, RoHS and REACH. In addition, by comprehensively evaluating the life cycle of our products, we can produce the products which do no harm to the environment or as little as possible. We replaced all the lighting devices by LEDs of high performance and efficiency, elevating the power efficiency by 45%, equivalent to saving 684,461 megajoules (1 kWh = 3.6 megajoules). This company strictly enforced all kinds of energy-saving measures and examined greenhouse gases on	(3). No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			a regular basis. In addition, setting the air conditioners at a fixed temperature and lowering the water pressure to save water and using renewable energy and reducing the usage of lighting devices are also implemented.	
<b>3. Preserving Public Welfare</b>				
(1). Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		(1). We abide by the laws of Labor Standards Act and respects the international principles of labor rights, such as freedom of association, group negotiation, prohibiting child labor, eliminating forced labor, eliminating hiring discrimination, establishing labor management regulations and protecting all labor rights. Relevant regulations were established to ensure the appropriate working environment and management system.	(1). No major deviation.
(2). Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		(2). This company established the mailbox to board chairman, Employee opinion mailbox, irregular seminars, new employee survey, sex harassment mailbox and interdepartmental meetings to keep a good communication and a friendly relationship with its employees. In the behavioral guidance manual, the appeal channel and mechanism are well documented.	(2). No major deviation.
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		(3). A. As for maintaining the working environment, this company commits the professional organizations to examine its working environment, including lighting, carbon dioxide, isopropanol, local exhaust, lead and noise. The drinking water is	(3). No major deviation.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>examined with E. coli, bacteria colony every month and the water filters are replaced every month. Elevators are maintained every month. Safety of building is checked on a regular basis; the central kitchen is checked every month. Heavy metal test is conducted.</p> <p>B. For the purpose of keeping employees healthy, assigning proper jobs, preventing occupational diseases, and avoiding labor disputes, in addition to conforming to relevant laws (Labor Standards Act, Occupational Safety and Health Act, Labor Health Protection Regulation, etc.), new employee physical examination and regular physical examination are also implemented. For those who have health problems, health management and tracking services are also provided. In collaboration with Miaoli Health Department, we obtained health promotion environment certification. We hold many events, such as mother classroom, blood donations, healthy breakfast choice and recipe, cancer knowledge, stretching in offices, healthy diet, how to increase basic metabolism and detoxification. Breastfeeding seminars were held. Yoga and weight loss programs are provided every quarter. Massage service twice a week by the blind are provided to relax muscles and alleviate pressure. Doctors from Mackay Hospital come to our plant three times a month to provide health counseling. In the annual physical examination, Papsmear, gynecology ultrasonic examination, and breast</p>	

Evaluation Item	Implementation Status		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
			<p>ultrasonic examination are provided. In collaboration with Liver Disease Foundation, digestive functions, cancer screening by blood and abdomen ultrasonic examination are provided. Pap cancer and flu vaccines are provided.</p> <p>C. To conform to the law requirements, we have some projects, such mother protection, overwork prevention, musculoskeletal protection, and occupational violence prevention. By questionnaire and interviews, the physical and mental condition of employees is taken care of.</p> <p>D. This company holds many free health seminars for employees. From 2011, we also collaborate with Hsinchu Lifeline to provide counselling for their problems and pressure and after Sep 2018 was changed by Newmind EAP Consultation Co., Ltd. The welfare Association of this company has organized many clubs and hold many activities, which benefit the physical and mental conditions of our employees. These clubs include hiking, badminton, basketball, yoga, golf, softball, swimming, boxing aerobics, and hand football.</p> <p>E. As for the details of safe and healthy working environment, please refer to the corporation website <a href="http://www.phison.com/CorporateSustainabilityReport/2017CorporateSustainabilityReport/Section7.6WorkplaceHealthandSafety(P067)">www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section 7.6 Workplace Health and Safety (P067)</a>.</p>
(4). Does the company setup a communication channel with employees on a regular	V		<p>(4). This company holds employee forums on irregular basis to explain the operation to its</p> <p>(4). No major deviation.</p>

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?			employees and keeps a very good relationship with its employees. As for the communication with its employees, please refer to the corporation website <a href="http://www.phison.com/CorporateSustainabilityReport/2017CorporateSustainabilityReport/Section7.5EmployeeCommunications(P065)">www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section 7.5 Employee Communications(P065)</a> .	
(5). Does the company provide its employees with career development and training sessions?	V		(5). This company has a very good plan of development and is very willing to help employees obtain necessary knowledge and skills for promotion during his/her current position. As for Cultivation and Education, please refer to the corporation website <a href="http://www.phison.com/CorporateSustainabilityReport/2017CorporateSustainabilityReport/Section7.4CultivationandEducation(P062)">www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section 7.4 Cultivation and Education(P062)</a> .	(5).No major deviation.
(6). Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		(6). This company provides customers all kinds of service and take after-sale service every seriously. This company has many customer service channels, as well as real-time appeal channel to solve customers' problems.	(6).No major deviation.
(7). Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		(7). This company labels all necessary information on the packages and user manuals of its products including "manufacturer", "RoHS Mark", "CE safety Mark" and "WEEE recycle Mark" to announce the safety conformity of the products/services and the law conformity of hazardous material.	(7).No major deviation.
(8). Does the company evaluate the records of suppliers' impact on the environment	V		(8). This company takes the environment protection and social protection very seriously.	(8). No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
and society before taking on business partnerships?			We will choose the suppliers based on the same standard and check their conformity on a regular basis.	
(9). Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	V		(9). This company asks its suppliers to abide by the policy of no commission and no gift. We also prohibit the transactions with stakeholders. If suppliers do not obey these requirements, we will stop the contract immediately. This company demands the most reasonable price, the best quality and the best service. We and suppliers will dedicate ourselves to promote the corporate social responsibility.	(9).No major deviation.
4. Enhancing Information Disclosure				
(1). Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The 2017 "Corporate Sustainability Report" was published based on the principle of The GRI-101 Content Index and The AA1000 AccountAbility Principles Standards. This report was posted on the website in June of 2018. Please refer to page 54 of the annual report for the publication of corporate sustainability report.	No major deviation.
<p>5.If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation :</p> <p>This company has not established the “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and will do so in the future based on the actual needs.</p>				
<p>6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices :</p> <p>(1)<u>Environmental Protection</u></p> <p>This company focuses on the R&amp;D of green products and asks its suppliers to abide by the regulations of WEEE (Waste Electrical and Electronic Equipment), RoHS (Restriction of Hazardous Substances), REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) and HF (Halogen Free) to realize the ideas of environmental protection and sustainability in its R&amp;D and the management of affiliates. These fulfill the commitment and responsibility of Phison about environmental protection.</p> <p>As for the responsibility about environmental protection, please refer to the corporation website <a href="http://www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section">www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section</a></p>				



Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	

8Environmental Responsibility (P070).

(2) Community participation, community contributions, social service, social public welfare, human right, health/safety and other social responsibility activities:

- A. Charitable Donations: Total amount of 2018 Phison's cash donations to academic institutions and social welfare organizations was 15.19 million.  
Phison believes that good wills should be sent out to make the society better. The corporate resources and skills should be used to help those who need help and make them realize the importance of good will and willing to help others. The spread of good will brings more hopes and make more people willing to help, which can make our society better and warm. Phison spent most of its donation on the local charity organizations in Hsinchu and Miaoli County, because they are those who need help most. Allocating resources to those who need help most is the way to maximize the value of the resources. Phison continuously make donations to these charity organizations to help them take care of social vulnerable people.  
In addition to charity organizations, our board chairman is very willing to give speeches in schools and charity organizations to share his experience of starting businesses and inspire the young to take actions. He also established many scholarships for poor students and special educations, sponsored the research and training of school associations and donated money to medical research. Besides he also donated money to chunan elementary school, local farmers' associations, temples and rescuing organizations to improve the equipment or hold relevant events.
- B. Caring local community  
Phison cared many social vulnerable people organizations in Hsinchu and Miaoli County in recent years, such as nursing home, orphanages, and nursing centers. By visiting these places, Phison can understand the situation in great details and give them proper help (money or material). Phison also took their management team to these charity events to offer more care and help.
- C. Caring social vulnerable people  
For the purpose of supporting social vulnerable people organizations, Phison established an area on the 7th floor (restaurant) for the disabled to sell their products. These charity sales were held for the social vulnerable people organizations and our employees showed their passion for these events. There were 23 charity sales in 2018.  
In our plant, we collect invoices and send-hand material, such as clothes, small home appliances, books, etc. for donation. This activity has been held for years. The e-bulletin is the place we express our good wills and all charity information will be posted here.  
Phison holds charity running events to invite customers and suppliers to join our charity activities. We also invite social vulnerable people to participate, which can make more people understand, accept and support them.
- D. As for the charity events, please refer to the corporation website [www.phison.com/Corporate Sustainability Report/2018 Corporate Sustainability Report/Section 9 Spreading Good will](http://www.phison.com/CorporateSustainabilityReport/2018CorporateSustainabilityReport/Section9SpreadingGoodwill) (P086).

(3) Consumers' rights:

- A. The major products of this company are flash memory controller, usb drive and flash memory cards. They are sold to the manufacturers or retailers, so we have no business directly with consumers. Our customers can contact us by telephone, emails or mails to file their complaints.
- B. Phison 's most important goals are to satisfy customers' needs, establish excellent management of customer relationship and systemize the customer service protocol. These can ensure our

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	

consistent service quality and help customers to create values, as well as creating maximal profit.

- C. As for the management of customer relationship, please refer to the corporation website [www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section 4.5 Customer Relationship Management \(P030\)](http://www.phison.com/Corporate%20Sustainability%20Report/2017%20Corporate%20Sustainability%20Report/Section%204.5%20Customer%20Relationship%20Management%20(P030)).

7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions:

To ensure the information disclosure, the 2013 corporate social responsibility report of this company has been verified by the third-party organization (bsi, British Standards Institution) on Aug 15, 2014. This report conforms to the standard of GRI G3.1A+ and Top1 of AA1000 AS. The 2016 "Corporate Sustainability Report" was completed based on the standard of GRI-G4 and AA1000 and posted on the website in June of 2017. The 2017 "Corporate Sustainability Report" was completed based on the standard of GRI-101 and AA1000 and posted on the website in June of 2018.

Please go to our website [www.phison.com](http://www.phison.com) to see Corporate Sustainability Report.

## Ethical Corporate Management

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) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		(1). This 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. This company signs confidential agreements with its directors, supervisors and management team and illustrates the rules which should be followed. We will establish the relevant regulations in the future based on the actual needs.	(1). No major deviation.
(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	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 this company in case of conflict of interest, we also set up an email for reporting such behaviors.(whistleblower@phison.com)	(2). No major deviation.
(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?	V		(3). This company asks suppliers, contractors and other affiliates to sign documents for guaranteeing no illegal business activities and no bribes.	(3). No major deviation.
2. Fulfill operations integrity policy				

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) Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?	V		(1). This company has the internal code of work and the regulation of reward/punishment to avoid unethical behaviors. This company selects the suppliers based on the principles of integrity and fairness to find the most competitive companies which are ethical. It is strictly prohibited to take commission or other improper rewards.	(1). No major deviation.
(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?	V		(2). Integrity is one of the five core values of this company and is always the basis of the operation of this 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. We had established the dedicated unit "Green and Sustainability Management Committee" to enforce the corporate social responsibility.	(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). This company has code of work, regulations of reward/punishment to regulate its employees. It is prohibited for employees to endanger the rights of this company because of personal rights.	(3). No major deviation.
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		(4).To ensure the ethical operation, this 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	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.

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
integrity?				
3. Operation of the integrity channel				
(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		(1). This company has regulations of integrity, regulations of reward/punishment, code of work, etc. 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 mail.	(1). No major deviation.
(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	V		(2). In the communication protocol of this company, all personnel should keep the informant data confidential.	(2).No major deviation.
(3) Does the company provide proper whistleblower protection?	V		(3). This company has regulations that the data of the informants should be kept confidential for protection to avoid that the informants are treated unfairly.	(3). No major deviation.
4. Strengthening information disclosure				
(1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	V		(1). This company has the website for investors to review the relevant information. The information is posted on the Market Observation Post System for investors to understand the governance.	(1). No major deviation.

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: this company has not established the "The Ethical Corporate Management Best Practice Principles". It will be established in the future based on the actual needs.

6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).

This company has approved the "management operation of avoiding insider trading" and the "auditing of the insider trading" in the board of directors on Dec 29, 2009. In the "management operation of avoiding insider trading", the articles of "how to define the internal critical information affecting stock price" and "confidential operation and trading prohibition before the internal critical information is announced" are drafted. This company revised these regulations according to the requirements on Mar 24, 2011. We will relay the most update information to the directors, supervisors and management team by documents and emails to avoid insider trading.

## Regulations of Governance and Their Disclosure

Important Regulations	Disclosure
Articles of Association Rules of Procedure for shareholders' Meeting Proceedings Rules of Board of directors' Procedure of Selecting Directors and Supervisors Duty Scope of Independent Director Moral Rule of Director, Supervisors and Management Team Organization Articles of Remuneration Committee 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 Ethics Policy	<u>Market Observation Post System:</u> <a href="http://mops.twse.com.tw">http://mops.twse.com.tw</a> Please check at Basic information/E-books /Annual Reports and relevant documents of shareholders' meetings or Corporate Governance/relevant regulations <u>The Company website:</u> <a href="http://www.phison.com">http://www.phison.com</a> Please check at Investor Relations/Corporate Governance/Major Internal Policies

## Other Important Information Regarding Corporate Governance

### Advanced Training of Directors and Supervisors in 2018

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2018
			From	To				
Director	Pua Khein Seng	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Director	Aw Yong Chee Kong	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Director	Kuang Tzung Horng	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of	3.0	

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2018
			From	To				
					Association	Taiwan		
Director	Hsu Chih Jen	2017/06/13	2018/04/13	2018/04/13	Taiwan Academy of Banking and Finance	Corporate Governance Forum-Family business heritage	3.0	12
			2018/09/19	2018/09/19	Taipei Exchange	Insider of General Stock Board Listed and Emerging Stocck Board Listed Companies' Insider's Equity propaganda	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Juridical Director and Representative	Hiroto Nakai	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Independent Director	Wang Shu Fen	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Independent Director	Wang Chen Wei	2017/06/13	2018/03/05	2018/03/05	Taiwan Depository & Clearing Corporation	100% Electronic voting and Company value improvement	6.0	12
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate	Analysis of 2018 Amendment to the	3.0	

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2018
			From	To				
					Governance Association	Company Act of Taiwan		
Supervisor	Yang Jiunn Yeong	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Supervisor	Wang Huei Ming	2017/06/13	2018/07/06	2018/07/06	CPA Association R.O.C. (Taiwan)	The resolve of latest tax laws and regulations released in the first half of 2018	7.0	19
			2018/08/08	2018/08/08	CPA Association R.O.C. (Taiwan)	The common defects of the evaluation reports of financial instruments	3.0	
			2018/08/08	2018/08/08	CPA Association R.O.C. (Taiwan)	The common defects of the working paper of evaluation reports	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Supervisor	Chen Chiun Hsiou	2017/06/13	2018/05/28	2018/05/28	Taiwan Corporate Governance Association	“Artificial intelligence is coming” and “Reverse Business Times”	3.0	9
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	



Advanced Trainings of Management Team on Governance in 2018

Title	Date of Training	Sponsoring Organization	Course	Training hours
Accounting Director	2018/11/22-2018/11/23	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs.
Deputy Accounting Director	2018/11/22-2018/11/23	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs
Prepare financial report related accounting personnel	2018/11/22-2018/11/23	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs

Advanced Trainings of Internal Auditor on Governance in 2018

Title	Date of Training	Sponsoring Organization	Course	Training hours
Audit Director	2018/09/13	The Institute of Internal Auditors-Chinese Taiwan	The knowledge of labor law that auditors should have - from recruitment to separation.	6hrs.
Audit Director	2018/10/26	The Institute of Internal Auditors-Chinese Taiwan	Auditing practice and ethics discussion	6hrs.
Audit Director	2018/11/01	The Institute of Internal Auditors-Chinese Taiwan	How internal auditors interpret business performance and risks from IFRS financial statements.	6hrs.
Deputy Auditor	2018/05/14-2018/05/16	The Institute of Internal Auditors-Chinese Taiwan	Pre-employment training workshop for internal auditors	18hrs
Deputy Auditor	2018/10/01	The Institute of Internal Auditors-Chinese Taiwan	The knowledge of labor law that auditors should have - from recruitment to separation.	6hrs.
Deputy Auditor	2018/10/11	The Institute of Internal Auditors-Chinese Taiwan	Significant financial frauds (defalcation of company assets, insider trading, benefits transfer, manipulation of stock price, irregular transactions, etc.) and legal risks.	6hrs

Domestic and Overseas Certificate Owned by Finance, Accounting and Stock Personnel

Certificate	Finance, Accounting and Stock Personnel	Auditor
Domestic Certificate	Book keeper of general examination Level B technician for accounting Level C technician for accounting Certified Public Accountants (CPA) Service personnel	Certificate by Institute of Internal Auditors Qualification of Internal Control Skills Test
Overseas Certificate	US Certified Public Accountants (US CPA)	Certified Internal Auditor (CIA) Certification in Risk Management Assurance (CRMA)

Buying Insurances for Directors and Supervisors

Subject	Insurance company	Insurance Amount	Term
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2017/01/12~2018/01/12
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2018/01/12~2019/01/12
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2019/01/12~2020/01/12

Drafting of Corporate Sustainability Report:

To disclose the information, this company has drafted the Corporate Sustainability Report as follows

Year	Basis	Remark
2013	Conforming to the principles of GRI G3.1A+ and AA1000 AS	Certified by the third-party certification organization (bsi, British Standards Institution) on Aug 15, 2014.
2014	Conforming to the principles of GRI G4 and AA1000	Disclosed on the website in June of 2015.
2015	Conforming to the principles of GRI G4 and AA1000	Disclosed on the website in June of 2016.
2016	Conforming to the principles of GRI G4 and AA1000	Disclosed on the website in June of 2017.
2017	Conforming to the principles of GRI-101 and AA1000	Disclosed on the website in June of 2018.
2018	Conforming to the principles of GRI-101 and AA1000	It will be completed in June of 2019.

## Implementation of Internal Control

### Internal Control Statement

PHISON ELECTRONICS CORPORATION  
Internal Control System Statement

Date: March 21, 2019

The Company states the following with regard to its internal control system during fiscal year 2018, 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, 2018 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 21, 2019, where none of the seven attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

PHISON ELECTRONICS CORPORATION

Chairman: (signature)

President: (signature)

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

Punishment by Laws or Publication by Internal Control System Before the Publication of this Annual Report: None.

Major Resolutions of Shareholders' Meeting and Board of directors

Major Resolutions of Shareholders' Meeting

Date	Resolution	Implementation																										
	Recognition Matters ( by board of directors )																											
2018.06.08 (Regular shareholders' meeting)	Adoption of the 2017 Business Report and Financial Statements	<p>The 2017 individual financial statements and consolidated financial statements have been approved by the accountant Dai, Xin-Wei and Fan, Yu-Wei of Deloitte &amp; Touche CPAs Firm and have been approved on Mar 16, 2018 in the board of directors.</p> <p>The information of the 2017 individual financial statement and consolidated financial statements are as follows (Unit: In addition to EPS(Basic) is NT\$, others in thousand in NT\$)</p> <table border="1"> <thead> <tr> <th>Statements</th> <th>Comprehensive Income Statements</th> <th>Consolidated Statements of Comprehensive Income</th> </tr> </thead> <tbody> <tr> <td>Operating Revenue</td> <td>\$41,773,532</td> <td>\$41,864,759</td> </tr> <tr> <td>Gross Profit</td> <td>11,449,095</td> <td>11,499,622</td> </tr> <tr> <td>Operating Income</td> <td>6,723,101</td> <td>6,731,692</td> </tr> <tr> <td>Profit Before Income Tax</td> <td>6,713,205</td> <td>6,717,870</td> </tr> <tr> <td>Net Profit For The Year</td> <td>5,760,972</td> <td>5,761,290</td> </tr> <tr> <td>Total Comprehensive Income</td> <td>5,816,473</td> <td>5,818,699</td> </tr> <tr> <td>EPS(Basic)</td> <td>NT\$ 29.23</td> <td>NT\$ 29.23</td> </tr> </tbody> </table>			Statements	Comprehensive Income Statements	Consolidated Statements of Comprehensive Income	Operating Revenue	\$41,773,532	\$41,864,759	Gross Profit	11,449,095	11,499,622	Operating Income	6,723,101	6,731,692	Profit Before Income Tax	6,713,205	6,717,870	Net Profit For The Year	5,760,972	5,761,290	Total Comprehensive Income	5,816,473	5,818,699	EPS(Basic)	NT\$ 29.23	NT\$ 29.23
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	Total Comprehensive Income	5,816,473	5,818,699																									
	EPS(Basic)	NT\$ 29.23	NT\$ 29.23																									
	Adoption of the Proposal for Distribution of 2017 Profits	The Ex-Dividend date of cash dividend is on Jul 4, 2018 and Cash dividend payment day is on Jul 26, 2018. (The proportion is NT\$17 every share for shareholder cash dividends).																										
Discussion Matters ( by board of directors )																												
Proposal for a cash offering by private placement	This private stock issuance has been cancelled on Mar 21, 2019 in the board of directors and will be reported to the 2019 shareholders' meeting.																											

### Important Resolutions by Board Meetings

Date	Resolution	Implementation														
2018.06.08 11th Meeting of the eighth term	( Proposed by the Remuneration Committee ) Review the Special Performance Evaluation for managerial officers as well as the proposal for the Compensation of Project Performance Incentive Bonus during Q1 of 2018 for managerial officers	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
	For the matters regarding FY2017 cash dividends distribution	The Ex-Dividend date of cash dividend is on Jul 4, 2018 and Cash dividend payment day is on Jul 26, 2018. (The proportion is NT\$17 every share for shareholder cash dividends).														
2018.07.27 12th Meeting of the eighth term	( Proposed by the Remuneration Committee ) Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
	( Proposed by the Remuneration Committee ) The meeting schedule of the Remuneration Committee for the year 2019	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
2018.08.13 13th Meeting of the eighth term	Consolidated Financial Statements for the Six Months Ended June 31, 2018 and 2017	The consolidated financial statements of the 2nd quarter of 2018 have been approved on Aug 13, 2018 in the board of directors. The information of the consolidated financial statements of the 2nd quarter of 2018 is as follows (in thousand in NT\$):(2018/01/01-2018/06/30)														
		<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #c6e0b4;">Statement Category</th> <th style="background-color: #c6e0b4;">Consolidated Statements of Comprehensive Income</th> </tr> </thead> <tbody> <tr> <td>Operating Revenue</td> <td style="text-align: right;">19,628,699</td> </tr> <tr> <td>Operating Income</td> <td style="text-align: right;">2,311,231</td> </tr> <tr> <td>Profit Before Income Tax</td> <td style="text-align: right;">2,626,710</td> </tr> <tr> <td>Net Profit For The Year</td> <td style="text-align: right;">2,118,499</td> </tr> <tr> <td>Total Comprehensive Income For The Year</td> <td style="text-align: right;">2,057,174</td> </tr> <tr> <td>EPS(Basic)</td> <td style="text-align: right;">NT\$10.75</td> </tr> </tbody> </table>	Statement Category	Consolidated Statements of Comprehensive Income	Operating Revenue	19,628,699	Operating Income	2,311,231	Profit Before Income Tax	2,626,710	Net Profit For The Year	2,118,499	Total Comprehensive Income For The Year	2,057,174	EPS(Basic)	NT\$10.75
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Net Profit For The Year	2,118,499															
Total Comprehensive Income For The Year	2,057,174															
EPS(Basic)	NT\$10.75															
The credit line of banks for the Company	This resolution has been implemented.															
The credit line of foreign exchange and derivatives for the Company,	This resolution has been implemented.															
2018.10.24 14th Meeting of the eighth term	( Proposed by the Remuneration Committee ) Reviewing the new managerial officers, to be submitted by the company, for the remuneration pre-examination executed by the Remuneration Committee	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
	( Proposed by the Remuneration Committee ) Review the Remuneration of the managerial officers to be newly appointed	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
	For the operations and business development needs, the Company	This resolution has been implemented.														

Date	Resolution	Implementation														
	invested not more than U.S. \$6,300 thousands indirectly increase invested 100% subsidiary “Regis Investment (Samoa) Limited” in Samoa and re-investment the subsidiary “RealYou Investment Limited” in Hong Kong															
	For the operations and business development needs, the Company plan to invest not more than U.S. \$6,300 thousands indirectly invested in a new set up HOSIN Global Electronics Co., LTD.(tentatively the company name) in Shenzhen, Guangdong Province, China	This resolution has been implemented.														
2018.11.13 15th Meeting of the eighth term	Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and 2017	<p>It has been approved on Nov 13, 2018 in the board of directors. The information of the consolidated financial statements of the 3rd quarter of 2018 is as follows: (in thousand in NT\$)(2018/01/01-2018/09/30)</p> <table border="1" data-bbox="845 694 1452 1041"> <thead> <tr> <th data-bbox="845 694 1241 817">Statement Category</th> <th data-bbox="1241 694 1452 817">Consolidated Statements of Comprehensive Income</th> </tr> </thead> <tbody> <tr> <td data-bbox="845 817 1241 851">Operating Revenue</td> <td data-bbox="1241 817 1452 851">30,665,532</td> </tr> <tr> <td data-bbox="845 851 1241 884">Operating Income</td> <td data-bbox="1241 851 1452 884">3,849,053</td> </tr> <tr> <td data-bbox="845 884 1241 918">Profit Before Income Tax</td> <td data-bbox="1241 884 1452 918">4,105,625</td> </tr> <tr> <td data-bbox="845 918 1241 952">Net Profit For The Year</td> <td data-bbox="1241 918 1452 952">3,521,577</td> </tr> <tr> <td data-bbox="845 952 1241 1008">Total Comprehensive Income For The Year</td> <td data-bbox="1241 952 1452 1008">3,354,821</td> </tr> <tr> <td data-bbox="845 1008 1241 1041">EPS(Basic)</td> <td data-bbox="1241 1008 1452 1041">NT\$17.87</td> </tr> </tbody> </table>	Statement Category	Consolidated Statements of Comprehensive Income	Operating Revenue	30,665,532	Operating Income	3,849,053	Profit Before Income Tax	4,105,625	Net Profit For The Year	3,521,577	Total Comprehensive Income For The Year	3,354,821	EPS(Basic)	NT\$17.87
	Statement Category	Consolidated Statements of Comprehensive Income														
	Operating Revenue	30,665,532														
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	Profit Before Income Tax	4,105,625														
	Net Profit For The Year	3,521,577														
	Total Comprehensive Income For The Year	3,354,821														
	EPS(Basic)	NT\$17.87														
The Company proposal to issue 2018 Employee Stock Option Plan	This resolution has been implemented. The employee stock purchase certificate has been approved by Financial Supervisory Commission R.O.C Securities and Futures Bureau, Jin-Quan-Zheng-Fa Number 1070344165 letter on Nov. 28, 2018.															
Phison plan to make additional equity investment in cash in 100%-owned subsidiary Global Flash Limited and transfer this fund to invest in Core Storage Electronic (Samoa) Limited and re-investment the subsidiary in China Hefei Core Storage Electronic Limited	This resolution has been implemented.															
The credit line of banks for the Company	This resolution has been implemented.															
The credit line of foreign exchange and derivatives for the Company	This resolution has been implemented.															
The proposal of the “2019 Annual Audit Plan”	This resolution has been implemented.															
Amendment to the “Authorizing Table”	This resolution has been implemented.															
2019.01.25 16th Meeting of the eighth term	( Proposed by the Remuneration Committee ) Reviewing the new managerial officers, to be submitted by the company, for the remuneration pre-examination executed by the Remuneration Committee	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
	( Proposed by the Remuneration Committee ) Review the Remuneration of the managerial officers to be newly appointed	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														

Date	Resolution	Implementation
	( Proposed by the Remuneration Committee ) The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	The Company proposed evaluate the CPA independence and suitability	Based on the Occupational Moral Regulation Announcement No.10, Laws of The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, this company established an evaluation for the CPA independence and competence. We also asked the Deloitte & Touche CPAs Firm to sign an independence statement. The evaluation result is that the CPAs are qualified to be the CPAs of this company.
	The credit line of banks for the Company	This resolution has been implemented.
	The credit line of foreign exchange and derivatives for the Company	This resolution has been implemented.
	The 2018 employee compensation payment and director remuneration	This resolution has been implemented and will be reported to 2019 shareholders' meeting.
	( Proposed by the Remuneration Committee ) The consideration of the remuneration of board of directors and the employee compensation for managerial directors during 2018	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	The business operation report and the financial statements of the Company for Year 2018	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for recognition.
	Adoption of the Proposal for Distribution of 2018 Profits	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for recognition.
	To discuss and approve the Company's 2019 business plan	This resolution has been implemented.
	Amendment to part of the Articles of Association of the Company	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.
	Amendment to part of the "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".	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.
	Amendment to the "Authorizing Table"	This resolution has been implemented.
	To approve the Internal Control System Statement of Year 2018	This resolution has been implemented.
	To approve the revisions of internal control systems to "Implementation Rules of the Employee Welfare Committee"	This resolution has been implemented.
	The Company proposed to cancelled the private placement of new common shares	This resolution has been implemented and will be reported to 2019 shareholders' meeting.
	Proposal for the issuance plan of private placement for common shares	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.
	To discuss and approve the agenda of the Company's 2019 Annual General Meeting of Shareholders	The company 2019 shareholders' meeting will be hold on Jun. 12, 2019.
	For the matter of changing the Company's appointed Certified Public	This resolution has been implemented.

2019.03.21  
17th Meeting of  
the eighth term

Date	Resolution	Implementation														
	Accountants															
	The Company plan invest “EMTOPS ELECTRONICS CORP.” cash injection increase plan	This resolution has been implemented.														
	( Proposed by the Remuneration Committee ) The performance evaluation for managerial officers as well as the proposal for the fixed annual salary adjustment for managerial officers	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.														
	Consolidated Financial Statements for the Three Months Ended March 31, 2019 and 2018	It has been approved on May 10, 2019 in the board of directors. The information of the consolidated financial statements of the first quarter of 2019 is as follows: (in thousand in NT\$)(2019/01/01-2019/03/31)														
		<table border="1"> <thead> <tr> <th>Statement</th> <th>Consolidated Statements of Comprehensive Income</th> </tr> </thead> <tbody> <tr> <td>Operating Revenue</td> <td>9,343,016</td> </tr> <tr> <td>Operating Income</td> <td>1,067,547</td> </tr> <tr> <td>Profit Before Income Tax</td> <td>1,040,918</td> </tr> <tr> <td>Net Profit For The Year</td> <td>881,823</td> </tr> <tr> <td>Total Comprehensive Income For The Year</td> <td>974,692</td> </tr> <tr> <td>EPS(Basic)</td> <td>NT\$4.47</td> </tr> </tbody> </table>	Statement	Consolidated Statements of Comprehensive Income	Operating Revenue	9,343,016	Operating Income	1,067,547	Profit Before Income Tax	1,040,918	Net Profit For The Year	881,823	Total Comprehensive Income For The Year	974,692	EPS(Basic)	NT\$4.47
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Net Profit For The Year	881,823															
Total Comprehensive Income For The Year	974,692															
EPS(Basic)	NT\$4.47															
2019.05.10 18th Meeting of the eighth term	To approve the establishment of “Standard Operating Procedures for handling requirements of Directors”	This resolution has been implemented.														
	The company designated the authorized person to make guarantee agreement when making a guarantee for an overseas company	This resolution has been implemented.														
	The credit line of banks for the Company	This resolution has been implemented.														
	The credit line of foreign exchange and derivatives for the Company	This resolution has been implemented.														
	Amendment to the “Property, plant and equipment cycle” and the “Management of Property, Plant and Equipment”	This resolution has been implemented.														
	To approve the revisions to “Procedures for Acquisition or Disposal of Assets”	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.														

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

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 Audit Fee and Independence

Accounting Firm	Name of CPA		Period Covered by CPA’s Audit	Remarks
Deloitte Touche Tohmatsu Limited	Dai Xin Wei	Fan Yu Wei	2018/1/1~2018/12/31	N.A.



In thousand in NT\$

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000			1,701	1,701
2	NT\$2,000 ( included ) ~NT\$4,000				
3	NT\$4,000 ( included ) ~NT\$6,000				
4	NT\$6,000 ( included ) ~NT\$8,000		7,100		7,100
5	NT\$8,000( included )~NT\$10,000				
6	Over NT\$10,000 ( included )				

3.5.1 Non-audit fee for the CPAs, the Firm and the affiliates:

The Company's payment to Deloitte in 2018: NT\$7,100 thousands is Audit Fee and NT\$1,701 thousands of Non-audit Fee which including NT\$300 thousands of Transfer Pricing (TP) Local File, NT\$900 thousand of TP Country-by-Country Report, NT\$200 thousands of the private placement of new common shares with specific subscribers for listing on OTC market and NT\$301 thousands of other services.

3.5.2 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.

3.5.3 The audit fee is less than that of the previous year by 15%, 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 The opinion from the former CPA about the 10.6.1 and 10.6.2.3 in the Regulations Governing Information to be Published in Annual Reports of Public Companies: not applicable.

**3.7 The company's chairperson, 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 Before the Annual Report is Published.**

Title	Name	2018		As of Apr 14 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman/CEO	Pua Khein Seng	0	1,500,000	0	0
Director/President	Aw Yong Chee Kong	0	(1,700,000)	0	0
Director/Vice President	Kuang Tzung Horng	0	0	0	0
Vice Technical President	Hsu Chih Jen	0	0	0	0
Director/Major shareholders	Toshiba Memory Corp.	0	0	0	0
Director Toshiba Memory Corp.	Hiroto Nakai	0	0	0	0

Title	Name	2018		As of Apr 14 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Representative					
Independent Director	Wang Shu Fen	0	0	0	0
Independent Director	Wang Chen Wei	0	0	0	0
Supervisor	Wang Huei Ming	0	0	0	0
Supervisor	Yang Jiunn Yeong	0	0	0	0
Supervisor	Chen Chiun Hsiou	0	0	0	0
President	Yeou Long Sheng	0	0	0	0
Director of Product Division 、 Director of Innovation Technology R&D Group-R&D Division 3	Gan Wee Kuan	0	0	(5,000)	0
Director of Sales & Marketing Group-Sales & Marketing Division 1	Tsai Shu Hui	0	0	(60,000)	0
Director of Sales & Marketing Group-Sales & Marketing Division 2	Tsay Huei Chen	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 1	Cheng Kuo Yi	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 2 、 Director of Innovation Technology R&D Group-R&D Division 7	Ma Chung Hsun	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 5	Lin Jui Chieh	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 6	Chan Ching Wen 【Note 1】	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 8	Chin Chieh Chuan 【Note 2】	0	0	0	0
Director of Administration Division	Liu Hsiu Chin	0	0	0	0
Director of Finance/Accounting&Investment Division	Chiu Shu Hua	0	0	0	0

【Note 1】 Chan Ching Wen appointed on Jan 25, 2019.

【Note 2】 Chin Chieh Chuan appointed on Oct 24, 2018.

Shares Trading with Related Parties: None.

### 3.9 Relationship among the Top Ten Shareholders

As of 14/4/2019

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		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Toshiba Memory Corp.	19,821,112	10.06%	Not Applicable	Not Applicable	1,000	0.00%	N.A.	N.A.	N.A.
Representative:Hiroto Nakai	0	0.00%	0	0.00%	0	0.00%	N.A.	N.A.	N.A.
Trusted Investment Account of Kingston Technology Inc. by CTBC Bank	11,249,000	5.71%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Employee Prvdnt-EPF MSCI North Asia by HSBC	7,762,000	3.94%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Pua Khein Seng	4,557,972	2.31%	806,262	0.41%	1,798,144	0.91%	N.A.	N.A.	N.A.
Yang Jiunn Yeong	4,549,114	2.31%	0	0.00%	0	0.00%	N.A.	N.A.	N.A.
Norges Bank	3,359,504	1.70%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Aw Yong Chee Kong	3,355,745	1.70%	0	0.00%	0	0.00%	N.A.	N.A.	N.A.
Ng Hon Wai	3,316,760	1.68%	11,561	0.01%	0	0.00%	N.A.	N.A.	N.A.
ROBECO CAPITAL GROWTH FUNDS	2,759,000	1.40%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	2,592,510	1.32%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.

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

As of 3/31/2019 In shares and %

Name of the Investment Company	Name of be Invested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by this Company		Consolidated Investment	
		Shares	%	Shares	%	Shares	%
This company	Kingston Technology Corporation	10,605,000	32.91	4,737,000	14.70	15,342,000	47.61
This company	Emtops Electronics Corporation	38,000,000	100.00	0	0.00	38,000,000	100.00
This company	Lian Xu Dong Investment Corporation	65,000,000	100.00	0	0.00	65,000,000	100.00
This company	Microtops Design Corporation	2,263,800	49.00	2,356,200	51.00	4,620,000	100.00
This company	Phison Electronics Japan Corp.	2,000	100.00	0	0.00	2,000	100.00
This company	Global Flash Limited	27,500,000	100.00	0	0.00	27,500,000	100.00
This company	Phisontech Electronics (Malaysia) Sdn. Bhd.	10,000,000	100.00	0	0.00	10,000,000	100.00
This company	EpoStar Electronics (BVI) Corporation	10,600,000	37.82	0	0.00	10,600,000	37.82
This company	Power Flash (Samoa) Limited	3,200,000	100.00	0	0.00	3,200,000	100.00
This company	Everspeed Technology Limited	1,000,000	100.00	0	0.00	1,000,000	100.00
This company	Regis Investment (Samoa) Limited	13,000,000	100.00	0	0.00	13,000,000	100.00
Lian Xu Dong Investment Corporation	Ostek Corporation	900,000	100.00	0	0.00	900,000	100.00
Lian Xu Dong Investment Corporation	PMS Technology Corporation	200,000	33.33	0	0.00	200,000	33.33
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	1,000,000	100.00	0	0.00	1,000,000	100.00
Global Flash Limited	Core Storage Electronic (Samoa) Limited	24,550,000	100.00	0	0.00	24,550,000	100.00
Global Flash Limited	Phisontech (Shenzhen) Limited	【Note 1】	100.00	0	0.00	【Note 1】	100.00
Power Flash (Samoa) Limited	Power Flash (HK) Limited	3,000,000	100.00	0	0.00	3,000,000	100.00
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	【Note 2】	96.91	0	0.00	【Note 2】	96.91
Everspeed Technology Limited	Memoryexchange Corporation	40,950,000	100.00	0	0.00	40,950,000	100.00
Everspeed Technology Limited	Fast Choice Global Limited	50,000	100.00	0	0.00	50,000	100.00
Everspeed Technology Limited	Cloud Solution Global Limited	5,950,440	100.00	0	0.00	5,950,440	100.00
Regis Investment (Samoa) Limited	RealYou Investment Limited	12,950,000	100.00	0	0.00	12,950,000	100.00
RealYou Investment Limited	Hefei Ruhan Electronics Technology Limited	【Note 3】	100.00	0	0.00	【Note 3】	100.00
Hefei Core Storage Electronic Limited	Hefei Yichao Electronics Technology Limited	【Note 4】	100.00	0	0.00	【Note 4】	100.00

Name of the Investment Company	Name of be Invested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by this Company		Consolidated Investment	
		Shares	%	Shares	%	Shares	%
Hefei Yichao Electronics Technology Limited	Hefei Xinpeng Technology Co., Ltd.	【Note 5】	36.36	0	0.00	【Note 5】	36.36
RealYou Investment Limited	HOSIN Global Electronics Co., Ltd.	【Note 6】	40.00	0	0.00	【Note 6】	40.00

【Note 1】 Investment of USD 1,790,000 / NT\$53,096,000.

【Note 2】 Investment of USD 24,500,000 / NT\$777,318,000.

【Note 3】 Investment of USD 5,972,000 / NT\$182,825,000.

【Note 4】 Investment of CNY 40,500,000 / NT\$185,369,000.

【Note 5】 Investment of CNY 40,000,000 / NT\$178,920,000.

【Note 6】 Investment of USD 5,973,000 / NT\$183,640,000.

【Note 7】 Investment by Equity Method.

## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Source of Capital

#### Issued Shares

In NT\$ in shares

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
2000.11	10	12,000	120,000	3,000,000	30,000,000	Registered capital	N.A.	Note 01
2002.03	10	12,000	120,000	5,000,000	50,000,000	Capital increased by cash:NT\$ 20,000,000	N.A.	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	N.A.	Note 03
2003.01	45	12,000	120,000	7,907,948	79,079,480	Capital increased by cash:NT\$ 15,000,000	N.A.	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	N.A.	Note 05
2003.08	28	30,000	300,000	17,695,055	176,950,550	Capital increased by cash:NT\$ 3,660,000	N.A.	Note 06
2004.08	10	60,000	600,000	35,751,099	357,510,990	Capital increased by surplus:NT\$ 180,560,440	N.A.	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	N.A.	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	N.A.	Note 09
2005.06	10	60,000	600,000	36,255,099	362,550,990	Capital increased by employee stock option:NT\$ 230,000	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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>	N.A.	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>	N.A.	Note 17
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	N.A.	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>	N.A.	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>	N.A.	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>	N.A.	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	N.A.	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>	N.A.	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>	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	Note 29

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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	N.A.	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>	N.A.	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>	N.A.	Note 40
2016.12	10	230,000	2,300,000	197,073,993	1,970,739,930	Eliminating treasury stock of NT\$3,000,000	N.A.	Note 41

- 【Note01】 This capital increase was approved by the Ministry of Economic Affairs on 2000.11.08 with the letter Chung No.89521752.
- 【Note02】 This capital increase was approved by the Ministry of Economic Affairs on 2002.03.25 with the letter Chung No.09131849090.
- 【Note03】 This capital increase was approved by the Ministry of Economic Affairs on 2002.05.23 with the letter Chung No.09132153980.
- 【Note04】 This capital increase was approved by the Ministry of Economic Affairs on 2003.01.28 with the letter Chung No.09231612830.
- 【Note05】 This capital increase was approved by the Ministry of Economic Affairs on 2003.04.28 with the letter Shan No.09201127820.
- 【Note06】 This capital increase was approved by the Ministry of Economic Affairs on 2003.08.04 with the letter Chung No.09232463150.
- 【Note07】 This capital increase was approved by the Ministry of Economic Affairs on 2004.08.26 with the letter Chung No.09332620870.
- 【Note08】 This capital increase was approved by the Ministry of Economic Affairs on 2004.11.12 with the letter Chung No.09333010190.
- 【Note09】 This capital increase was approved by the Ministry of Economic Affairs on 2005.01.18 with the letter Chung No.09431571170.
- 【Note10】 This capital increase was approved by the Ministry of Economic Affairs on 2005.04.18 with the letter Chung No.09431980500.
- 【Note11】 This capital increase was approved by the Ministry of Economic Affairs on 2005.08.31 with the letter Chung No.09432758570.
- 【Note12】 This capital increase was approved by the Ministry of Economic Affairs on 2005.11.08 with the letter Shan No.09401222320.
- 【Note13】 This capital increase was approved by the Ministry of Economic Affairs on 2006.02.16 with the letter Shan No.09501027990.
- 【Note14】 This capital increase was approved by the Ministry of Economic Affairs on 2006.05.22 with the letter Shan No.09501093420.
- 【Note15】 This capital increase was approved by the Ministry of Economic Affairs on 2006.08.08 with the letter Shan No.09501172160.
- 【Note16】 This capital increase was approved by the Ministry of Economic Affairs on 2007.01.12 with the letter Shan No.09601006390.
- 【Note17】 This capital increase was approved by the Ministry of Economic Affairs on 2007.07.04 with the letter Shan No.09601142790.
- 【Note18】 This capital increase was approved by the Ministry of Economic Affairs on 2007.08.27 with the letter Shan No.09601209920.
- 【Note19】 This capital increase was approved by the Ministry of Economic Affairs on 2007.11.16 with the letter Shan No.09601280340.
- 【Note20】 This capital increase was approved by the Ministry of Economic Affairs on 2008.06.30 with the letter Shan No.09701153220.
- 【Note21】 This capital increase was approved by the Ministry of Economic Affairs on 2008.09.02 with the letter Shan No.09701224760.
- 【Note22】 This capital increase was approved by the Ministry of Economic Affairs on 2009.03.06 with the letter Shan No.09801042190.
- 【Note23】 This capital increase was approved by the Ministry of Economic Affairs on 2009.05.22 with the letter Shan No.09801102570.
- 【Note24】 This capital increase was approved by the Ministry of Economic Affairs on 2009.07.24 with the letter Shan No.09801161440.
- 【Note25】 This capital increase was approved by the Ministry of Economic Affairs on 2010.02.24 with the letter Shan No.09901035290.
- 【Note26】 This capital increase was approved by the Ministry of Economic Affairs on 2010.05.14 with the letter Shan No.09901098090.
- 【Note27】 This capital increase was approved by the Ministry of Economic Affairs on 2010.07.19 with the letter Shan No.09901160360.
- 【Note28】 This capital increase was approved by the Ministry of Economic Affairs on 2010.08.24 with the letter Shan No.09901189940.
- 【Note29】 This capital increase was approved by the Ministry of Economic Affairs on 2010.11.24 with the letter Shan No.09901263780.
- 【Note30】 This capital increase was approved by the Ministry of Economic Affairs on 2011.01.17 with the letter Shan No.10001009260.
- 【Note31】 This capital increase was approved by the Ministry of Economic Affairs on 2011.05.18 with the letter Shan No.10001102080.
- 【Note32】 This capital increase was approved by the Ministry of Economic Affairs on 2011.07.26 with the letter Shan No.10001170190.
- 【Note33】 This capital increase was approved by the Ministry of Economic Affairs on 2011.10.18 with the letter Shan No.10001239220.
- 【Note34】 This capital increase was approved by the Ministry of Economic Affairs on 2012.01.20 with the letter Shan No.10101014700.
- 【Note35】 This capital increase was approved by the Ministry of Economic Affairs on 2012.05.09 with the letter Shan No.10101083930.
- 【Note36】 This capital increase was approved by the Ministry of Economic Affairs on 2012.08.15 with the letter Shan No.10101167840.
- 【Note37】 This capital increase was approved by the Ministry of Economic Affairs on 2012.11.13 with the letter Shan No.10101235590.
- 【Note38】 This capital increase was approved by the Ministry of Economic Affairs on 2013.02.20 with the letter Shan No.10201030590.
- 【Note39】 This capital increase was approved by the Ministry of Economic Affairs on 2014.07.03 with the letter Shan No.10301126590.
- 【Note40】 This capital increase was approved by the Ministry of Economic Affairs on 2015.03.11 with the letter Shan No.10401035870.
- 【Note41】 This capital increase was approved by the Ministry of Economic Affairs on 2016.12.05 with the letter Shan No.10501280670.

## Type of Stock

As of 4/14/2019; In shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stock	197,073,993	32,926,007	230,000,000	197,073,993 shares are listed in TPEX shares

### 4.1.2 Status of Shareholders

As of 4/14/2019; In shares and %

Amount \ Type of shareholder	Government Agencies	Financial Institution	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	3	28	188	18,145	632	18,996
Shareholding (shares)	3,569,417	3,043,168	8,410,932	49,125,597	132,924,879	197,073,993
Percentage	1.81%	1.54%	4.27%	24.93%	67.45%	100.00%

### 4.1.3 Shareholding Distribution Status

As of 4/14/2019; In shares

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage(%)
1 to 999	8,887	786,986	0.40
1,000 to 5,000	8,204	14,749,332	7.48
5,001 to 10,000	815	6,248,947	3.17
10,001 to 15,000	294	3,744,029	1.90
15,001 to 20,000	178	3,204,133	1.63
20,001 to 30,000	146	3,692,109	1.87
30,001 to 50,000	144	5,675,167	2.88
50,001 to 100,000	117	8,031,728	4.08
100,001 to 200,000	83	11,681,558	5.93
200,001 to 400,000	51	14,524,121	7.37
400,001 to 600,000	24	11,576,064	5.87
600,001 to 800,000	7	4,833,471	2.45
800,001 to 1,000,000	10	8,945,317	4.54
Over 1,000,001	36	99,381,031	50.43
Total	18,996	197,073,993	100.00

【Note 1】 All the shares of this company are common stocks; no preferred stock is issued.



#### 4.1.4 List of Major Shareholders

As of 4/14/2019; In shares

Shareholder's Name	Shareholding (shares)	Shareholding (shares)	%
Toshiba Memory Corp.		19,821,112	10.06%
Trusted Investment Account of Kingston Technology Inc. by CTBC Bank		11,249,000	5.71%
Employee Prvdnt-EPF MSCI North Asia by HSBC		7,762,000	3.94%
Pua Khein Seng		4,557,972	2.31%
Yang Jiunn Yeong		4,549,114	2.31%
Norges Bank		3,359,504	1.70%
Aw Yong Chee Kong		3,355,745	1.70%
Ng Hon Wai		3,316,760	1.68%
ROBECO CAPITAL GROWTH FUNDS		2,759,000	1.40%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds		2,592,510	1.32%

#### 4.1.5 Market Price, Net Worth, Earnings, Dividend and Relevant Information in the Previous Two Years

In NT\$

Item		Year	2017	2018	Current Year Before Mar 31, 2019
Market Price per Share	Highest	Before Revision	450.00	324.00	307.00
		After Revision	450.00	324.00	
	Lowest	Before Revision	245.50	187.00	222.00
		After Revision	245.50	187.00	
	Average 【Note 1】	Before Revision	336.95	264.25	268.94
		After Revision	336.95	264.25	
Net Worth per Share	Before Distribution		132.23	136.56	141.51
	After Distribution		115.23	—	—
Earnings per Share	Weighted Average Shares (thousand shares)		199,840	199,941	199,328
	Earnings Per Share	Diluted	29.23	21.91	4.47
		Adjusted Diluted	—	—	—
Dividends per Share	Cash Dividends		17.00	13.00 【Note 6】	—
	Stock Dividends	Dividends from Retained Earnings	0.00	0.00	—
		Dividends from Capital Surplus	0.00	0.00	—
	Accumulated Undistributed Dividends		0.00	0.00	—
Return on Investment	Price/Earnings Ratio 【Note 3】		11.53	12.06	—
	Price/Dividends Ratio 【Note 4】		19.82	20.33	—
	Cash Dividend Yield Rate(%) 【Note 5】		5.05	4.92	—

【Note 1】 Average market price per Share=Annual turnover value/Annual turnover.

【Note 2】 International Financial Reporting Standards is adopted (consolidated statements).

【Note 3】 Price / Earnings Ratio = Average Market Price / Earnings per Share.

【Note 4】 Price / Dividend Ratio = Average Market Price / Cash Dividends per Share.

【Note 5】 Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price.

【Note 6】 It needs to be approved by 2019 shareholders' meeting.

#### 4.1.6 Dividends Policy and Implementation

##### 4.1.6.1 Dividends Policy on the Articles of Association of the corporation:

Base 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. Some of the profit will be appropriated to preferred capital reserve according to the laws and regulations. The remaining net earnings can be appropriated along with prior accumulated unappropriated retained earnings based on the resolution decided by the board of directors. The dividends proposed by the board of directors will be submitted to the shareholders' meeting. Our dividends policy depends on the investment environment of the future, capital demand, domestic and overseas competition and budget, as well as shareholders' rights, dividends balance and long-term financial plans. The actual distribution plans are proposed by the board of directors and then approved by the shareholders' meeting. Dividends are either cash or shares. The ratio of cash dividends should not less than 10% of the total shareholders' dividends.

##### 4.1.6.2 The dividends distribution in this shareholders' meeting:

The surplus distribution of 2018 has been approved by the board of directors on Mar 21, 2019 and will submit this surplus distribution to 2019 shareholders meeting. The board of directors plans to cash distribute NT\$ 2,561,961,909 (NT\$ 13 per share) to the shareholders who own the stock on the base date. The smallest unit of dividends is NT\$1 and dividends below this unit will be omitted, and the aggregate of cash dividend less than NT\$1 shall be transferred to the Employee Welfare Committee. The paid-in capital shares of the company before Mar 21, 2019 is 197,073,993 shares. Upon the shareholders' meeting approves this proposal, the chairman is authorized to determine the base date of distributing dividends and other affairs. If the number of shares varies, the chairman is authorized to adjust the dividends accordingly.

##### 4.1.6.3 If the dividends policy will be adjusted, it needs to be illustrated: none.

#### 4.1.7 Effects of the dividends distribution on the operation performance and EPS of this company: not applicable.

#### 4.1.8 Compensation of employees, directors, and supervisors:

##### 4.1.8.1 The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth in the company's articles of incorporation.

According to the Article 19 of the company, if the company earns a profit, 8% to 19% of it should be used as the employee remuneration and less than 1.5% of it could be used as the Directors/Supervisors remuneration. If the company is still in accumulated loss, the profit should be used to compensate this loss first.

The employee remuneration can be rewarded in stocks or cash to the employee if the criteria are met. The Director/Supervisor remuneration can only be rewarded in cash.

In the preceding paragraph, profit means the pre-tax income before the employee remuneration and the Director/Supervisor remuneration are rewarded.

The employee and Director/Supervisor remuneration should be decided in the board of directors with the presence of two-thirds of directors and the agreement of half of the directors. These decisions should be reported to the shareholders' meeting.

##### 4.1.8.2 The basis for estimating the amount of employee, director, and supervisor 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 the 2018.

4.1.8.2.1 Basis of the 2018 Cash Remuneration for Employees, Directors and Supervisors.

The profit of this company in 2018 is NT\$ 5,590,352,737 (Profit refers to the Profit Before Income Tax and before deducting the remuneration to employees Bonus and Directors' and Supervisors' Remuneration) and the company will remunerate the employees (NT\$ 550,000,000 in total; 9.84% of the profit) and the directors/supervisors (NT\$ 40,000,000 in total; 0.72% of the profit). The remuneration will be rewarded in cash.

4.1.8.2.2 Basis of the 2018 Stock Remuneration for Employees: there is no stock remuneration in 2018.

4.1.8.2.3 Difference is Adjusted by Accounting Principles: there is no difference in the 2018 employees, Directors' and Supervisors' Remuneration.

4.1.8.3 Information on any approval by the board of directors of distribution of compensation:

4.1.8.3.1 The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors. 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.

The board of directors of the company approved to distribute the employees remuneration NT\$ 550,000,000 and the directors/supervisors remuneration NT\$ 40,000,000 on Mar 21, 2019. There is no difference between the 2018 actual distribution and the estimated distribution.

4.1.8.3.2 The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: there is no stock remuneration in 2018

4.1.8.4 In Case of Difference for the 2018 Employee, Directors and Supervisors Remuneration, Disclose the Amount, Cause and Treatment:

The difference of the 2017 remuneration for employees, directors and supervisors (distributed in 2018) is as follows:

In NT\$

Distribution	Amount Approved by shareholders' meeting	Estimated Amount	Difference	Cause and Treatment
Employee Remuneration	670,000,000	670,000,000	0	N.A.
Directors and Supervisors Remuneration	60,000,000	60,000,000	0	

4.1.9 Buyback of Treasury Stock:N.A.

**4.2 Status of Corporate Bonds: N.A.**

**4.3 Status of Preferred Stocks: N.A.**

**4.4 Status of Global Depository Receipts: N.A.**

#### 4.5 Status of Employee Stock Option Plan:

4.5.1 Effect of unexpired employee stock options on the shareholders' rights before the annual report is published.

As of 24/5/2019

Type of Stock Option	1st employee stock option in 2017	1st employee stock option in 2018
Approval date	Dec 5, 2017	Nov 28, 2018
Issue date		Not issued.
Units issued		8,000,000 Units
Shares of stock options to be issued as a percentage of outstanding shares		Not issued.
Duration		4 years
Conversion measures		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. In the above term, if it is the day in which the option cannot be traded, the option is restricted.
Converted shares	This employee stock option was not issued. According to the related regulations, it is expired, so cannot be issued after Dec 4, 2018.	Not issued.
Exercised amount		Not issued.
Number of shares yet to be converted		Not issued.
Adjusted exercise price for those who have yet to exercise their rights		Not issued.
Unexercised shares as a percentage of total issued shares		Not issued.
Impact on possible dilution of shareholdings		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. Impact of these options on the shareholder's rights was gradually decreased, so the impact is limited.

4.5.2 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options: none.

#### 4.6 Issuance of New Restricted Employee Shares: there was no restricted shares issued before the annual report is published and in 2018.

4.6.1 Effect of unexpired employee stock options on the shareholders' rights before the annual report is published: not applicable.

4.6.2 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options: not applicable.

#### 4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: there are no new shares in connection with mergers and acquisitions in 2018 before the annual report is published.

#### 4.8 Finance Plans and Implementation: the previous cash replenishments by private placement and their implementation are listed as follows: not applicable.

## V. Operation Overview

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### 5.1.1.1 Main areas of business operations

This company mainly focuses on the controller of flash memory and the design of the peripheral devices integration.

- The design、manufacture and sell of the controllers and modules of SSD.
- The controllers and modules of embedded Flash used on portable application likes smart phone and tablet, included eMMC、UFS.
- The design、manufacture and sell of the controllers and modules of USB.
- The design、manufacture and sell of the controllers and modules of memory card(SD/CF).

In thousand in NT\$

Item	2018	
	Amount	Percentage (%)
Flash memory module product	26,227,838	64.30
Integrated circuit	6,563,170	16.09
Controller	7,824,256	19.18
Others	172,841	0.43
<b>Total</b>	<b>40,788,105</b>	<b>100.00</b>

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

##### 5.1.1.2 Current Major Product (Service)

- The controllers and modules of SSD.
- The embedded controller used on portable application, included eMMC、UFS.
- The controllers and modules of USB.
- The memory card controllers and memory card: SD card、microSD card etc.

##### 5.1.1.3 New Major Product (Service) under Development

- High speed, high capacity USB 3.2 Flash Drive solutions.
- SD 7.0 (SD Express) controllers.
- UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
- High performance PCIe NVMe controllers and solutions.
- 12nm PHYs.
- Enterprise and Datacenter SSD controllers.
- New LDPC ECC engines for emerging 3D QLC NAND Flash.
- System in Package SSD solutions.
- Automotive SSD solutions.

#### 5.1.2 Current Status of the Industry

##### 5.1.2.1 Current status and development of the industry.

Because this company focuses on the controller of flash memory and the design of the peripheral devices integration. We will illustrate the current status and development of the flash memory and NAND Flash products in this industry:

- 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 smart phone、laptop/desktop computer and server etc.. NAND flash solution is

transferring from 2D MLC to 3D TLC. 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 demand of data storage market is increasing and it requires a faster and more reliable solution of data streaming, so that SSD and eMMC can be widely used in computer and smart phone in the recent years, and enter to the large data processing servers and cloud applications. In addition, the capacity in single production of memory card 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 of niches and advantages in long-term for the 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 controller is critical. Most of the technologies for controllers, such as wear leveling and bad block management, are to extend the life of NAND Flash.

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

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

### **Controller for USB 3.0 mobile Drives and Products**

USB 3.0 is designed for fast transferring of audio and video data. It is 10 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 3.0 is greatly promoted to 5Gb 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 3.0, the transferring speed can be greatly promoted to over 200MB per second, which saves a lot of data transferring time. This company is the first one to propose the USB 3.0 controllers for 4 channels and 8 channels alternating transferring, which improve the power consumption and the heat accumulation, as well as decreasing the PCB size and lowering the total cost. We have developed the USB 3.0 mobile drive with the reading speed of 400 MB per second and the writing speed of 300 MBper 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 3.0 controllers and mobile drives with high performance/price ratio to provide more customers with convenience and performance of USB 3.0.

### **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, smart phones and tablets. In recent years, the need for high capacity cards is increased. TLC with features of low cost and high capacity is widely used in the consumer electronics. Because feature phones are gradually replaced by smart phones, high capacity microSD cards become more and more popular. Phison Electronics Corporation make efforts to develop new features, support new-generation SD4.0

specification, provide high capacity cards with better writing/reading performance. We also enter the niche market to provide products with higher additional value to satisfy the needs for premium memory cards. In addition, for the DVR and UAV cameras which need uninterrupted recording feature, this 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 smart phone. Because the market of smart phones 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 Supplier, such as Samsung, Toshiba, 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 smart phone, tablets, set-top box and smartTV. This built-in flash memory does not only satisfy the need of smart phones, but also has higher reliability than other storage cards. Phison Electronics Corporation has been working in this area for quite a long time. The NAND Flash management technology and the experience of many years are the most important basis for developing this product. In addition, Phison Electronics Corporation has enough 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 5.x and UFS 2.0,

### **UFS**

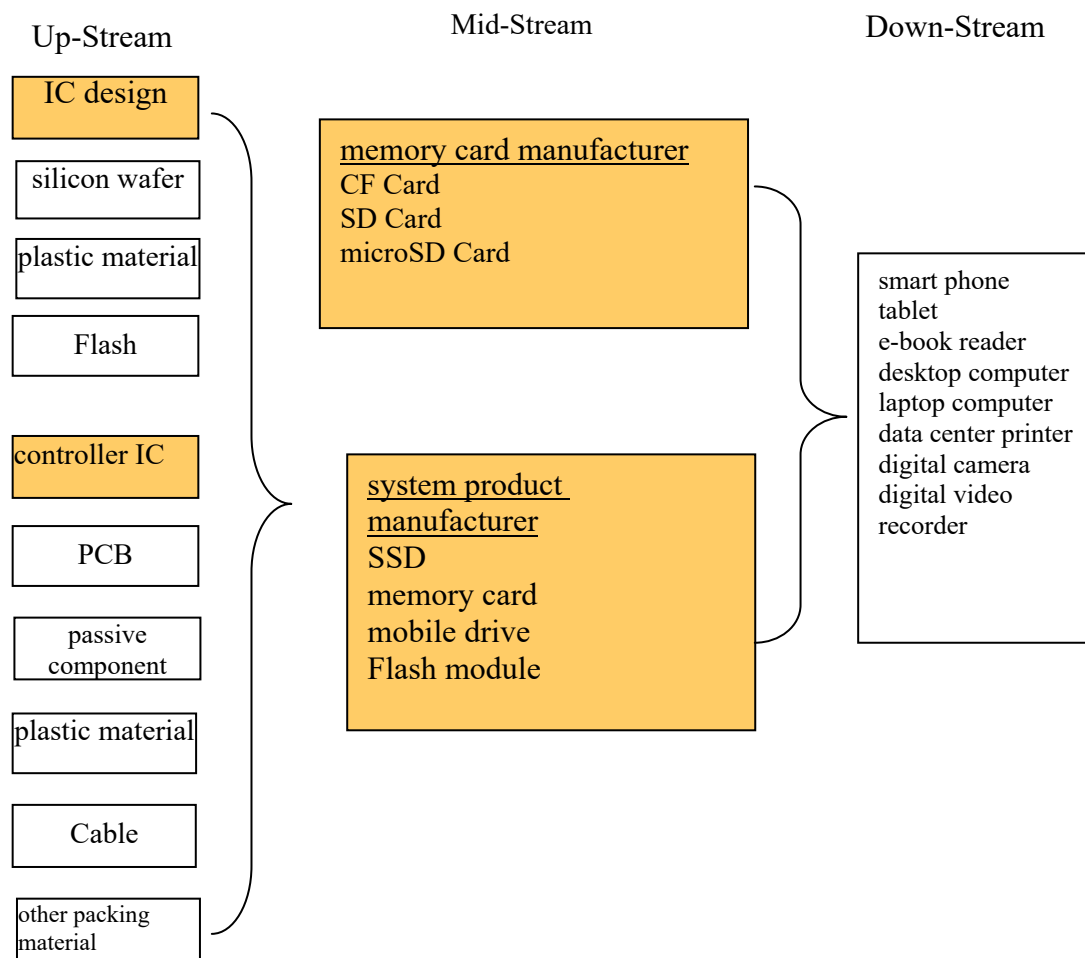
With the improvement of smart phone functions, the processors of them are more advanced, more APPs are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. Because the limitation of eMMC transferring interface, the data transferring speed is very difficult to be promoted. Therefore, the industry has established the new interface specification UFS (Universal Flash Storage). Currently, the data transferring speed of UFS2.0 is 3~4 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. This 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, we will promote the penetration rate of the storage media in advanced hand-held devices.

### **SSD**

All of traditional IT and electronic products used hard disks as storage media in the past, but the software and hardware in 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 of flash memory and system products. Currently, we have all kinds of SSD chips for SATA and PCIE interfaces and comprehensive solutions to satisfy the needs of all parties. 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 Up-stream, Mid-stream and Down-stream in this Industry

This company focused on the controllers of flash memory and the system products of SSD, eMMC, mobile drives and memory cards. We are in the up-stream and mid-stream of this industry.



### 5.1.2.3 Trends and Competition of Products

#### ●Trends of Products

##### **Controller:**

Controller for SSD and eMMC: the design is toward multiple function integration, larger memory, faster speed, random access speed, access stability, longer life, supporting all specifications and transferring interfaces, low voltage, low cost and single chip.

Controller for flash memory: the design is toward faster speed, access stability, supporting all specifications and transferring interfaces, small size, low voltage, low cost and single chip.

Mobile drive: the design is toward larger memory, faster speed, small size, data security and software platform integration.

To sum up, this 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.

#### ●Competition

The trend of NAND Flash 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 with less and less advantages, which making the participants to integrate or jump out of this market. 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 SSD and eMMC. 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 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 owning high compatibility, which benefit the competitiveness in the market. This 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 benefit our future growth in the market.

### 5.1.3 Current Status of Technology and R&D

#### 5.1.3.1 Technology level of the Business

This company mainly focuses on the R&D, design, manufacturing and sales of controllers for flash memory, mobile drives, flash memory cards, SSDs, eMMC built-in modules, etc. The core technology of these products is the controllers and the integration of their firmware and software. This 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 benefit our future growth in the market

#### 5.1.3.2 R&D of the Business

This company has a very excellent R&D team who are young, hard-working, creative and experience of many years. They have the experience of developing flash products and focuses on the controllers for flash memory and the peripheral systems. We are the leader in the development of controllers for flash memory and provide comprehensive technology solutions. The R&D team works very hard to be among the first three suppliers of controllers and peripheral systems.

#### 5.1.3.3 R&D Expenditure of the lastest year and as of the date of annual report published.

In thousands in NT\$;%

Year	2018	Mar 31, 2019
R&D Expenditure	3,495,417	864,646
Net Operating Revenue	40,788,105	9,343,016
R&D Expenditure to Net Operating Revenue	8.57%	9.25%

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

#### 5.1.3.4 Successful Technology or Products

##### ● Successful Results of R&D

Year	Results of R&D
2017	(1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip. (2) The advanced process PCIe G3x4 and MIPI PHY were developed for better performance and energy efficient (3) Developed the latest generation of LDPC+ DSP error correction module, which is able to more effectively support 3D Nand.

Year	Results of R&D
	(4) Developed USB3.1 flash disk that supports high speed random write. (5) Developed flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption. (6) Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices. (7) Develop various control chips and solutions that support 3D Nand.
2018	(1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip. (2) The advanced process PCIe G3x4 and MIPI PHY were developed for better performance and energy efficient. (3) Developed the latest generation of LDPC+ DSP error correction module, which is able to more effectively support 3D Nand. (4) Developed USB3.1 flash disk that supports high speed random write. (5) Developed flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption. (6) Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices. (7) Develop various control chips and solutions that support 3D Nand. (8) Developing the low-power RAID of advance error correction for mobile devices. (9) Developing low-power yet high performance SSD controllers by supporting HMB feature leveraging host memory buffer. (10) Developing SSD product solutions line up, in response to different requirements from various market segments, including embedded applications. (11) Developing System-In-Package Nand flash modules. (12) In compliance with industrial standards, including design and verification methodologies, developing functional modules for automotive applications.

● Technology Patents of this Company

This company made great efforts to develop the technologies for the flash memory application and has been successful on some critical technologies. We applied the patents for them. Up to Apr 30, 2019, there are 301 patent applications all over the world and 1,539 patents have been gratified.

5.1.4 Long-term and Short-term Business Plans

5.1.4.1 Short-term Business Plans

● Marketing/ Sales Strategy:

We will take the measures of strategic alliance to collaborate with large corporations in this industry and expand our market share. These measures could promote our technology status and market share of the products and create a bigger market demand.

We will establish different sales strategies based on the customer types and global market to satisfy the needs of the market and customers and promote the global sales.

We will explore the markets in China and developing countries to expand our market share and accommodate various customers.

- R&D

We will continue to improve the functions of the controllers for all kinds of flash memory to support all kinds of specifications and integration. The R&D is toward high performance, low power consumption, long life, high capacity, high compatibility.

The products will be more diversified and their functions and specifications will be improved to meet customers' needs.

The R&D will be toward data storage, embedded and data security to develop new products with single function or function integration.

- Production Strategies:

We will continuously improve the management of the balanced marketing and production. In addition, we will keep expanding outsourcing plants and improve their management.

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.

We will improve inventory management to make use of them as much as possible.

We will take the measures of strategic alliance to establish the marketing and production strategies in different areas and markets to effectively lower the production and marketing cost and serve the local customers.

We will continuously improve the collaboration with the material suppliers to better manage material inventory, production and marketing.

- Management and Finance:

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.

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.

Improve financial structure: we will continue to lower the operation cost, improve capital management, and take hedge measures of foreign currency rate. These measures can secure the financial operations and management to maximize the profit of this company.

We will make good use of the TIPTOP GP ERP System, AgentFlow system etc to integrate resources, promote business efficiency and improve operation processes.

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.

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 Business Development Plan

- Marketing policy: we will continue to improve the training of salesman, collect more market information, establish the customer service network, establish agent network, expand global market and enter big economies all over the world.

- R&D policy: we will continue to the technologies of 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.

- Production policy: we will keep good relationships with material suppliers and fibs and seek new suppliers to reduce the risks. We will continue to use the advanced manufacturing process to cut down the cost and improve the marketing and quality control to enhance our competitiveness.

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

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### 5.2.1.1 Sales Regions of Major Products (Services)

		In thousand in NT\$	
Area \ Year	Year	2017	2018
		Operating Revenue	Operating Revenue
Asia		23,853,418	24,336,197
America		13,514,981	12,646,332
Europe		4,126,140	3,609,347
Australia		368,827	195,271
Others		1,393	958
Total		41,864,759	40,788,105

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

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

- Market Share: not applicable because there is no statistical data.
- Demand/Supply/Growth in the Future

##### Supply

The application of flash memory becomes broader and broader, and the market demand is growing fast. Therefore, the manufacturers without advanced technology will lose their competitiveness. The major suppliers of controller chips are Phison, Marvel, Silicon Motion, Broadcom, Solid State System, Alcor, ITE Tech, WINBOND, IROC, ASolid, JMicron, Gigastone, etc. The manufacturers of Nand flash application products are Scandisk, Kingston and Micron, etc. (overseas) and Phison, Transcend, Apacer, Adata, Silicon Power, DELTA ELECTRONICS, LIWANLI, TONG HSING ELECTRONIC, FORMOSA TAFFETA, SUNNIC, etc. (domestic).

##### Demand

The application of Nand Flash is expanding as the memory chip's price is getting reasonable and the multimedia and portable products become popular. The Nand Flash applied product lines is growth. Not only the USB and SD Card which using in many digital and 3C products, but the eMMC using in smart mobiles and the SSD with fast read and write speed using in PC, note book and data center is gradually replace the hard disk. Thus, Nand flash is the most popular and stable storage media, the market should grow firmly.

##### Growth

In 2018, the sales amount of SSD controllers and products accounted for 46% of the total income, 11% higher than that in the previous year. We also developed UFS controllers for the best choice of next-generation high-performance built-in storage devices. Our R&D team will continue to make efforts in the development of IP and the miniature of manufacturing processes to provide more products and benefit the future development.

The demand for high speed data storage applications such as Cloud Computing, Big Data, Artificial Intelligence and Gaming have pushed SSD penetration rates to a new pace never seen before. Phison has launched different NAND Flash controllers for different markets, including several PCIe Gen3x4 NVMe controllers and the World's 1st PCIe Gen4x4 NVMe SSD controller. For performance-oriented applications and the enterprise SSD market, Phison offers the 8-channel ultra-high speed, low latency PCIe Gen3x4 controller in mass production. For mobile storage, Phison is one of the few companies that carry both eMMC and UFS controllers, where power consumption and temperature are critical. The latest UFS 3.0 controller unveiled by Phison, with in-house technology such as StrongECCTM, advanced LDPC, CoProcessorTM and RAID, provides optimal power consumption

and robust error correction capability while offering SSD-like performance. We also develop the PCIe NVMe BGA SSD as an alternative to high speed mobile storage. For memory cards, Phison has released the latest SD 6.0 and microSD controllers conforming to the SDA Application Performance Class 2 (A2), boosting the random performances while bumping up the capacity to 1TB. For the USB product line, it has evolved into several portable SSDs with unprecedented performance. For instance, the brand new iDUO Lightning and C-Thru USB 3.1 solutions can support end-users charging mobile devices during operation. All Phison product lines are supporting the latest 3D TLC NAND Flash from various manufacturers.

With the rapid development of flash memory application products, the development of NAND Flash controller chips are also rising and flourishing. The price of flash memory material was rapidly changed, making the marketing more competitive. Under the highly unpredictable situation, we predict that, in the future, the flash memory application products will be massively used in the hand-held devices, and other SSD application products will also replace traditional hard disks to a great extent because SSD products are with higher stability and speed and the cost trend will further descend. Therefore, the NAND Flash controller chips will be used more in the future. Phison Electronics Corporation will continue to develop new controller chip applications for NAND Flash products to provide service and products of system integration and application. In response to the technology industry change and the flash products application trend, Phison Electronics Corporation will also continue to invest new manufacturing processes and new technology specification to timely provide various application products. We will focus on promoting the application of SSD, eMMC and new products in all kinds of technology devices. We will also develop new generation of built-in high-speed eMMC and UFS controller chips for all kinds of hand-held devices, such as smart phones and tablets. In addition, we will continue to develop new SSD products for the ultrabook, industrial computers and the data storage devices for high-speed corporation application and IoT to provide the technology and service of total solutions to meet the needs in the market. We promise to promote our competitive capability and expand the market share.

#### 5.2.1.3 Niche for Competitions

- 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 2000, it has successfully developed controllers for many components, such as USB3.0 NAND flash memory, SD 4.0 UHS-II, eMMC 5.X, SATA SSD, PCIE SSD and security USB mobile drive. In the future, we will continue to improve the trainings for R&D personnel, provide the personnel with all kinds of benefits, and recruit new excellent personnel to promote the experience and technology, which make our products more competitive and create different new products.

- Strong Shareholders and Strategic Alliance

In the market, there are only a few NAND Flash suppliers, such as Toshiba. In addition, there are many specification of small memory cards. 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, this company made lots of efforts to develop advanced technology and new application areas. We have kept good relationship with all flash manufacturers and introduced strategic partner Toshiba in 2002. Toshiba has NAND Flash IPs, which can provide us with flash memory. Toshiba is also the creator of Secure Digital and xD-Picture specifications and has 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. We introduced strategic partners, Kingston Technology Corporation and Advantech Investment Inc., in 2014~2015 by private stock issuance. We

participated in the private stock issuance of Apacer Technology Inc., which benefits us in obtaining stable source of flash material and expanding retailer channels.

We 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.

- **Competitive Advantages of Having Design and Retailer End**

This company developed NAND Flash controllers and designed many products, such as flash memory reader and SSD · Nand flash application products. Most of the assembly and production works are outsourcing to other partner companies. 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 area, there will be many risks, such as decreased gross profit and increased inventory. We are not like the assembly module companies, which can only make smaller profit. We stand at the two ends of design and sales, which provides higher additional values. Our business income is higher than that of IC design companies and our profit is higher than that of the assembly companies. Therefore, we sell controllers to the famous companies, such as Toshiba and Kingston. Because we are quite familiar with controllers, our system products can be developed very fast and then sell to our customers in US, Europe and Japan. It is obvious that our business model is very competitive.

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

##### **Advantages:**

- **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 the economic scale and can provide professional services. These provide companies of controllers for flash memory with excellent support.
- **Rapid Growth of SSD Market**  
SSDs have 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. This 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, this company will rapidly satisfy the needs of the market and provide the market with more products to ensure the leadership of this company.
- **Development of Smart Phones Promotes Growth of Small Memory Cards**  
With the advance of NAND Flash manufacturing processes, the unit price of flash memory is getting glower 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 smart phones. It is expected that the market of small memory cards will be rapidly growing in the future.
- **The application of flash memory has been used in many products, such as 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 GPS products. Its application is still growing and therefore promotes the flash memory product industry.**

##### **Disadvantages and Responsive Strategy:**

- **Rapid Growth and More Competitors**  
Responsive strategy: this company has excellent technology design capability of NAND Flash controllers and firmware for the faster product development, more additional 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.
- Flash Memory in Control of Big International Suppliers  
Responsive strategy: we will keep close partnership with big international flash memory suppliers (such as Toshiba, Micro, Hynix, etc.) and seek the opportunity of establishing strategic alliance. We will pay close attention to the specification change, market change and price change of flash memory to adjust our inventory accordingly and reduce the risk of inventory.
  - More Product Specifications  
Responsive strategy: because the specification of flash memory is established by big international suppliers and the specification of small memory cards are quite diversified, this company has to pay close attention to the development of all kinds of specifications of memory cards and flash memory. By catching up with the development, we can rapidly develop our products and promote the functions, additional value and market compartmentation, which make the life cycle of products longer and the unexpected impacts on our products.

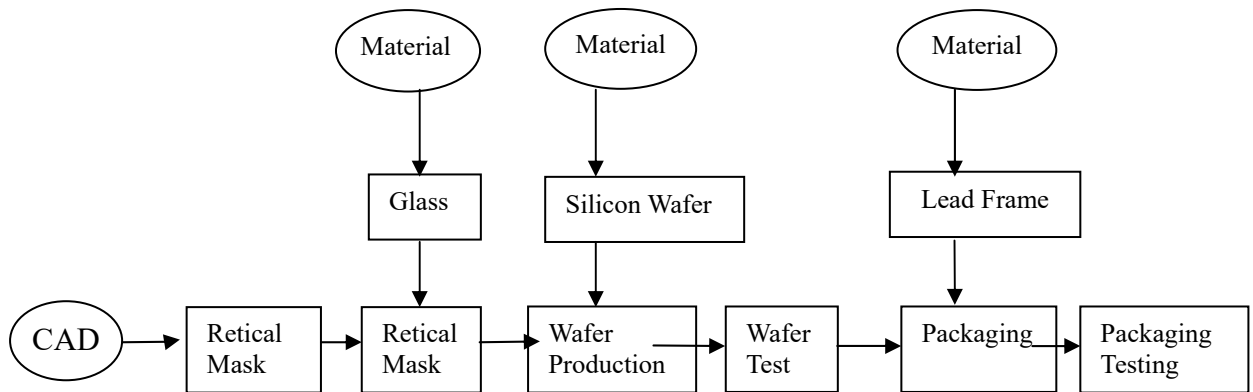
## 5.2.2 Main Use and Manufacturing Process of Major Products

### 5.2.2.1 Main Use of Major Products

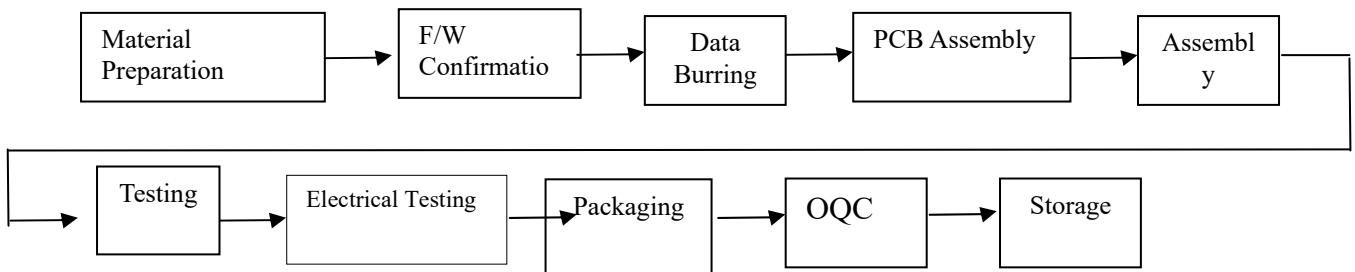
Product Category	Use
Flash memory system products	These are the storage devices with flash memory (mobile drive, flash memory card, SSD and built-in memory). Because USB interface, cameras, cell phones and laptop computers become more and more popular, these products are convenient for fast data access.
Flash memory controller chips	These products are used as I/O interface of common system products, to control and integrate between the firmware instruction set and the flash memory, enabling the system products and flash memory to translate instruction and transfer data.

### 5.2.2.2 Manufacturing Process

- Manufacturing Process of Controller IC



- Manufacturing Process of Flash Memory Reader



### 5.2.3 Supply Status of Major Material

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

Major Material	Major Supplier	Supply Status
Controller	United Microelectronics Corporation, Taiwan Satori Co., Ltd.	Normal
Flash Memory	Toshiba Memory, Micron, SanDisk	Normal
PCB	Taiwan Printed Circuit Board Techvest Co, Ltd., Cheng Mao Electronic Co., Ltd.	Normal
Connector, Case	Liang Meng Plastics share Co., Ltd. Wei Jeng Industrial Co., Ltd.	Normal



5.2.4 The name and proportion of the suppliers or customers who has 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 has occupied more than 10% of the total amount of purchase in any of the past two years.

The major suppliers in the last two years

In thousand in NT\$												
2017					2018				2019 (as of Mar 31)			
Item	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer
1	A	12,335,671	42.85	Subsidiary of a corporate member of the Corporation's board of directors	B	13,871,205	50.72	Subsidiary of a corporate member of the Corporation's board of directors	B	4,962,860	56.96	Subsidiary of a corporate member of the Corporation's board of director
	B	3,210,897	11.15	Subsidiary of a corporate member of the Corporation's board of directors	C	4,468,490	16.34	Subsidiary of a corporate member of the Corporation's board of directors	-	-	-	-
	Others	13,238,757	46.00		Others	9,009,854	32.94		Others	3,750,736	43.04	
	Net Purchase	28,785,325	100.00		Net Purchase	27,349,549	100.00		Net Purchase	8,713,596	100.00	

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

Cause of Change:

The company's major materials of products are flash memory and controller. In 2017, the percentages of supply from A company is 42.85%. In 2017 and 2018, the percentages of supply from B company are 11.15% and 50.72% respectively. In 2018, the percentages of supply from C company is 16.34%. The percentages of supply from other TMC group is 12.91% in 2017. The total purchase from TMC Group in 2017 and 2018 is around 66.91% and 67.06% respectively. There is no significant change in purchase from TMC group, so no analysis for the year of 2018. In The first quarter of 2019, the percentage of purchase from B company is 56.96%. The total purchase from TMC group is 61.23%.

5.2.4.2 The customers who has occupied more than 10% of the total amount of purchase in any of the past two years

The major customers in the last two years

In thousand in NT\$												
2017					2018				2019 (BeforeMar 31)			
Item	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer
1	A	9,217,685	22.02	N.A.	A	8,928,975	21.89	N.A.	A	1,415,173	15.15	N.A.
2	Others	32,647,074	77.98	N.A.	Others	31,859,130	78.11	N.A.	Others	7,927,843	84.85	N.A.
	Net Sales	41,864,759	100.00		Net Sales	40,788,105	100.00		Net Sales	9,343,016	100.00	

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

### Cause of Change:

In 2017 and 2018, the percentages of sales to A company are 22.02% and 21.89% respectively. There is no significant change in sales to A company, so no analysis for the year 2018. In 2019 first quarter, the percentages of sales to A company down to 15.15% as the NAND flash prices fall.

### 5.2.5 Production in the last two years

In thousand pieces/in thousand in NT\$

Year Production Amount Major Product	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Flash memory module product	—	90,757	20,187,760	—	112,910	21,077,449
Integrated circuit	—	91,216	6,427,969	—	102,758	6,192,795
Controllers	—	365,868	3,661,689	—	427,693	3,986,270
Others	—		56,362	—		106,614
Total		547,841	30,333,780		643,361	31,363,128

Note: The company develops the controllers and the outsourcing factories take the result produce the chips or system. Then we buy these chips to produce Nand flash application products or to sell them. The Flash memory controllers in this table list only those sold directly, thus the production is from the purchase information.

### 5.2.6 Sales in the last two years

In thousand pieces/in thousand in NT\$

Year Production Amount Major Product		2017		2018	
		Quantity	Amount	Quantity	Amount
Flash memory module product	Domestic 【Note 1】	18,870	6,060,169	34,183	7,102,933
	Overseas	72,583	21,751,533	79,191	19,124,905
Integrated circuit	Domestic 【Note 1】	29,035	786,027	22,907	614,624
	Overseas	129,575	6,305,423	178,216	5,948,546
Controllers	Domestic 【Note 1】	30,594	621,396	37,324	636,307
	Overseas	334,950	6,166,166	389,585	7,187,949
Others 【Note 2】	Domestic 【Note 1】	Not applicable	57,697	Not applicable	67,081
	Overseas	Not applicable	116,348	Not applicable	105,760
Total	Domestic 【Note 1】	78,499	7,525,289	94,414	8,420,945
	Overseas	537,108	34,339,470	646,992	32,367,160

【Note 1】 Domestic sales refer to the sales to Taiwan.

【Note 2】 Others refer to the material or products sold other than Nand flash application products and controllers, and the income of patent royalty and labor.

【Note 3】 International Financial Reporting Standards is adopted (Consolidated Statements)

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

As of 30/4/2019

Year		2017	2018	2019 (Before Apr 30)
Number of Employees	Department Head	58	66	68
	Production Employee	46	51	47
	Regular Personnel	1,395	1,595	1,692
	Total	1,499	1,712	1,807
Average Age		33.78	34.04	33.75
Average Years of Service		5.6	4.88	4.82
Education	Ph.D.	0.80	0.99	1.06
	Masters	54.77	56.31	57.13
	Bachelor's Degree	40.49	39.26	38.98
	Senior High School	3.67	3.15	2.62
	Below Senior High School	0.27	0.29	0.21

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

### 5.4 Environmental Protection Expenditure

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

5.4.1 The loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report:

Until the publication of this annual report, there is no loss or penalty by the authorities.

## 5.5 Labor Relations

5.5.1 Welfare, advanced education, training, retirement for the employees of this company and the agreements between the company and its employees and all protection measures of employees' rights.

5.5.1.1 Welfare of the employees:

### Company:

- Guaranteed salary of 12 months.
- Remuneration for employees to share the profit.
- Salary adjustment each year based on the work performance.
- Year-end bonus of two months.(Taiwan)
- Incentive bonus based on the business.
- No promotion barrier.
- Encourage employees to make innovations and high patent bonus will be paid.
- Comprehensive educational trainings and arrangement.
- Encourage employees to introduce excellent personnel and high recruiting bonus will be paid.
- Labor Insurance, National Health Insurance, Pension System, Group Insurance and Travel Insurance.
- Two days off per week and flexible shift arrangement.
- The vacation system in this company is better than the requirement of Labor Standard Act. Annual special vacation will be given after 3 months of service.
- Five days of paternity leave and three days for family with pay.
- Nice gifts to senior employees.
- Employees can advance salary for buying cars or emergency help, etc.

### Comfortable, safe and human working environment and leisure environment:

#### Company:

- Self-owned plant(30 thousand square meters) and equipment.
- Regular free physical examinations every year and health seminars for our employees.
- Leisure Center(with treadmills, aerobics bikes, gym bikes, mobile boxing target, hand football, etc.) and yoga classroom and outdoor complex ball park.
- Assistance of life services for employees (mental/legal/financial/management services).
- Medical Assistance.
- Three months of housing for new employees.
- Restaurants, coffee bars and parking lot (30 thousand square meters)
- Meal subsidy.
- Premium farms to provide high quality of organic vegetables and fruits.

#### Welfare Committee:

- Welfare and leisure activities provided by the Welfare Committee.
- Subsidy for marriage, child birth, death, hospitalization, etc.
- Domestic and overseas travel subsidy every year.
- Family days and irregular events.Party subsidy every half year.
- Bonus/voucher of three festivals and birthday.
- Gift/voucher/bonus of Labor Day.
- Year-end party with interesting activities and plenty of gifts. Even the smallest gifts are nice.
- This company provides many clubs and funding support. Currently, there are clubs of swimming, aerobics, yoga, softball, basketball, badminton, hiking, etc.
- Discounts in appointed stores.

### 5.5.1.2 Advanced Education and Trainings for Employees:

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

In 2018, the total expenditure of educational trainings is NT\$ 2,399,803. There are 7 categories of trainings, which are listed as follows:

Category	Times	Persons	Hours	Total Cost
Professional Skills	244	1,785	1,792	412,325
Quality	51	960	300	206,650
Auxiliary Skills	15	385	50	413,683
Health and Security	28	141	230	71,600
Management	5	247	30	412,576
Self-inspiration	48	4,437	43	324,669
Language	14	165	300	558,300
Total	405	8,120	2,745	2,399,803

### 5.5.1.3 Pension System and its implementation:

This company has the regulations for employee pension. It applies to all full-time employees. It regulates the pension payment.

If the employee chooses the pension system of Labor Standard Act, the pension will be paid as follows. Based on the length 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 maximal 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.

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.

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

This company takes the welfare, career, personal skill improvement and opinions of the employees very seriously, 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 2018, before the publication of the annual report, the relationship is pretty good and there is no dispute causing any loss. It is anticipated that there will be no such dispute in the future.

## 5.6 Important Contracts

The important contracts which are still valid or will be expired soon before the publication of the annual report are as follows:

Type	Contracting Party	Term of Contract	Summary	Restriction
License Contract	Synopsys International limited	2003/7/16-indefinite	Software use license and maintenance agreement	Comply with regulations of license scope and confidentiality obligation etc.
Technology License Contract	SD-3C LLC	2004/9/2	Technology license of SD card specification	Pay License fee and annual fee
Technology License Contract	4C Entity LLC	2003/03/07	Technology license of 4C CPRM/CPM	Pay License fee and annual fee
License Contract	Faraday Technology Corp	2007/08/11	Multiple licenses for use of UMC process databases	Regulations of database use and confidentiality responsibility
License Contract	Netac Technology Co Ltd.	From 2007/12/20 until both parties' patent rights expire	Mutual cross-license	License fee
Contributors Agreement	Intel Corporation	From Year 2008 without expiration date	Cooperate to formulating the USB3.0 final specification	Regulations of IPR ownership and confidentiality responsibility
License Contract	ARM limited	From 2009/08/10 until termination upon written notice	Physical IP license agreement	Pay License fee and maintenance fee
License Contract	Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)	2010/01/22-indefinite	License for use of database	Regulations of database usage and confidentiality responsibility
License Contract	Universal Serial Bus Implementers Forum, Inc. (USB-IF)	2010/05/24- eternal license	USB-IF trademark license	Regulations of USB-IF member responsibility and confidentiality obligation
License Contract	Andes Technology Corp.	2012/3/2	multiple IP license agreements	Pay License fee and maintenance fee
MIPI membership Agreement	MIPI Alliance Inc.	2012/04/18-indefinite	Membership and related license agreements	Regulations of MIPI member responsibility and confidentiality obligation
USB 3.0 Adopters Agreement	Intel Corp.	2012/08/09-indefinite	Adopt USB 3.0 specification	Regulations of USB3.0 specification usage and confidentiality responsibility
License Contract	Serial ATA International Organization (SATA-IO)	2019/05/31-eternally valid	Certification mark license	License fee
License Contract	Cadence Design Systems (Ire) Ltd	Effective from 2013/1/1	Acquire processor generator/cores technology license for use	Pay License fee and related expenditure
Participation Agreement	NVM EXPRESS, INC	Effective from 2014/4/2-indefinite	Phison participates NVMe membership as contributor	Comply with NVMe membership regulations
License Contract	PLDA Inc.	2015/2/10-indefinite	PLDA IP license agreement	Pay License fee, maintenance fee and related expenditure
License Contract	Avery Design Systems, Inc.	2015/3/2-2018/3/1	Software license in connection with MVMe and PCIe	License fee
License Contract	Intel Corporation	2017/7/13-indefinite	Acquire Thunderbolt technology and trademark use licenses	Comply with regulations of license scope and confidentiality obligation etc.
License Contract	Universal Flash Storage Association, Inc.	2018/1/18-indefinite	Acquire UFSA logo use license	Comply with UFSA logo use regulations

## VI. Financial Information

### 6.1 Five-Year Financial Summary

#### 6.1.1 Condensed Consolidated Balance Sheets and Consolidated Statements Of Comprehensive Income – Taiwan-IFRSs adopte

##### Condensed Consolidated Balance Sheets –Taiwan-IFRSs adopted

In thousand in NT\$

Item	Year	Financial Summary for The Last Five Years					2019 before Mar 31 【Note 2】
		2014	2015	2016	2017	2018	
Current assets		20,721,552	24,823,621	26,755,344	28,809,687	30,605,807	33,208,112
Property, Plant and Equipment		1,634,020	1,637,395	2,426,451	2,822,881	2,990,231	2,997,916
Intangible assets		126,804	198,623	222,297	218,130	152,550	143,963
Other assets		1,215,415	1,759,148	2,571,547	3,275,906	2,689,952	2,781,576
Total assets		23,697,791	28,418,787	31,975,639	35,126,604	36,438,540	39,131,567
Current liabilities	Before distribution	6,867,447	7,799,912	8,904,060	8,963,408	9,419,631	11,097,930
	After distribution	9,078,036	10,168,400	11,663,096	12,313,666	【Note 1】	【Note 1】
Non-current liabilities		52,803	69,013	73,354	104,881	107,039	119,825
Total liabilities	Before distribution	6,920,250	7,868,925	8,977,414	9,068,289	9,526,670	11,217,755
	After distribution	9,130,839	10,237,413	11,736,450	12,418,547	【Note 1】	【Note 1】
Total Equity attributable to owners of the corporation		16,517,480	20,328,329	22,992,825	26,058,315	26,911,870	27,888,183
Share capital		1,854,740	1,973,740	1,970,740	1,970,740	1,970,740	1,970,740
Capital surplus		4,487,500	6,514,569	6,652,449	6,660,502	6,674,650	6,676,271
Retained earnings	Before distribution	10,180,296	11,951,378	14,395,601	17,390,657	18,647,407	19,529,230
	After distribution	7,969,707	9,582,890	11,636,565	14,040,399	【Note 1】	【Note 1】
Other equity		(5,056)	(111,358)	(25,965)	36,416	(380,927)	(288,058)
Treasury stock		0	0	0	0	0	0
Non-controlling interest		260,061	221,533	5,400	0	0	25,629
Total equity	Before distribution	16,777,541	20,549,862	22,998,225	26,058,315	26,911,870	27,913,812
	After distribution	14,566,952	18,181,374	20,239,189	22,708,057	【Note 1】	【Note 1】

【Note 1】 The surplus distribution proposal of 2018 has not been approved by the shareholders' meeting.

【Note 2】 The financial data of 2019 first quarter is reviewed by the Auditors.

【Note 3】 According to the Rule No. 1050036477 issued by FSC, the Corporation has restated its consolidated financial statements from 2009 to 2015. The financial data from 2014 to 2015 are base on the restated consolidated financial statements.

Condensed Balance Sheets –Nonconsolidated,Taiwan-IFRSs adopted

In thousand in NT\$

Item	Year	Financial Summary for The Last Five Years					2019 before Mar 31
		2014	2015	2016	2017	2018	
Current assets		19,604,860	23,059,353	25,128,170	27,076,135	28,840,540	
Property, Plant and Equipment		1,628,996	1,629,662	2,392,803	2,793,102	2,961,130	
Intangible assets		103,164	174,308	217,763	212,108	149,381	
Other assets		1,407,579	2,792,935	3,687,775	4,496,367	3,997,535	
Total assets		22,744,599	27,656,258	31,426,511	34,577,712	35,948,586	
Current liabilities	Before distribution	6,174,651	7,260,460	8,360,393	8,433,967	8,943,486	
	After distribution	8,385,240	9,628,948	11,119,429	11,784,225	【Note 1】	
Non-current liabilities		52,468	67,469	73,293	85,430	93,230	
Total liabilities	Before distribution	6,227,119	7,327,929	8,433,686	8,519,397	9,036,716	
	After distribution	8,437,708	9,696,417	11,192,722	11,869,655	【Note 1】	Not applicable 【Note 2】
Total Equity attributable to shareholders of the parent		16,517,480	20,328,329	22,992,825	26,058,315	26,911,870	
Share capital		1,854,740	1,973,740	1,970,740	1,970,740	1,970,740	
Capital surplus		4,487,500	6,514,569	6,652,449	6,660,502	6,674,650	
Retained earnings	Before distribution	10,180,296	11,951,378	14,395,601	17,390,657	18,647,407	
	After distribution	7,969,707	9,582,890	11,636,565	14,040,399	【Note 1】	
Other equity interest		(5,056)	(111,358)	(25,965)	36,416	(380,927)	
Treasury stock		0	0	0	0	0	
Non-controlling interest		0	0	0	0	0	
Total equity	Before distribution	16,517,480	20,328,329	22,992,825	26,058,315	26,911,870	
	After distribution	14,306,891	17,959,841	20,233,789	22,708,057	【Note 1】	

【Note 1】 The surplus distribution proposal of 2018 has not been approved by the shareholders' meeting.

【Note 2】 There is no individual financial statements for the first quarter of 2019, so it is not applicable.

【Note 3】 According to the Rule No. 1050036477 issued by FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the revised finance statements.



## Condensed Consolidated Statements of Comprehensive Income – Taiwan-IFRSs adopted

In thousand in NT\$ except for EPS (in NT\$)

Item	Year	Financial Summary for The Last Five Years					2019 before Mar 31 【Note 1】
		2014	2015	2016	2017	2018	
Operating revenue		32,819,532	37,409,177	43,782,512	41,864,759	40,788,105	9,343,016
Gross profit		5,369,234	7,627,464	9,263,738	11,499,622	9,131,954	2,094,693
Operating income		2,790,032	4,226,904	4,842,648	6,731,692	4,709,784	1,067,547
Non-operating income and expenses		532,397	246,360	634,278	(13,822)	295,397	(26,629)
Profit before income tax		3,322,429	4,473,264	5,476,926	6,717,870	5,005,181	1,040,918
Net profit of the continuing operations		2,781,074	3,896,693	4,801,843	5,761,290	4,318,119	881,823
Loss of the discontinuing operation		0	0	0	0	0	0
Net profit for the year		2,781,074	3,896,693	4,801,843	5,761,290	4,318,119	881,823
Other comprehensive Income(Loss) for the Year, Net of Income tax		(3,174)	(131,438)	82,863	57,409	(171,742)	92,869
Total Comprehensive Income for the Year		2,777,900	3,765,255	4,884,706	5,818,699	4,146,377	974,692
Net profit attributed to the owners of parent company		3,201,149	4,000,009	4,866,992	5,760,972	4,318,119	881,823
Net profit attributed to non-controlling interests		(420,075)	(103,316)	(65,149)	318	0	0
Total comprehensive income attributed to owners of the parent company		3,202,083	3,875,369	4,950,331	5,816,473	4,146,377	974,692
Total comprehensive income attributed to non-controlling interests		(424,183)	(110,114)	(65,625)	2,226	0	0
Earnings per share (EPS)		17.48	20.41	24.67	29.23	21.91	4.47

【Note 1】 The financial data of 2019 first quarter is reviewed by the Auditors.

【Note 2】 According to the Rule No. 1050036477 issued FSC, the Corporation has restated its consolidated financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the restated consolidated financial statements.

## Condensed Statements of Comprehensive Income – Nonconsolidated, Taiwan-IFRSs adopted

In thousand in NT\$ except for EPS (in NT\$)

Item	Year	Financial Summary for The Last Five Years					2019 before Mar 31
		2014	2015	2016	2017	2018	
Operating revenue		32,842,545	37,048,926	43,678,547	41,773,532	40,804,130	Not Applicable 【Note 1】
Gross profit		5,545,586	7,525,281	9,207,321	11,449,095	9,151,272	
Operating income		3,174,235	4,299,367	4,916,446	6,723,101	4,736,351	
Non-operating income and expenses		553,372	262,008	615,752	(9,896)	264,002	
Profit before income tax		3,727,607	4,561,375	5,532,198	6,713,205	5,000,353	
Net profit of the continuing operations		3,201,149	4,000,009	4,866,992	5,760,972	4,318,119	
Loss of the discontinuing operation		0	0	0	0	0	
Net profit for the year		3,201,149	4,000,009	4,866,992	5,760,972	4,318,119	
Other comprehensive Income (Loss) for the Year, Net of Income tax		934	(124,640)	83,339	55,501	(171,742)	
Total Comprehensive Income for the Year		3,202,083	3,875,369	4,950,331	5,816,473	4,146,377	
Net profit attributed to the owners of parent company		Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Net profit attributed to non-controlling interests		Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Total comprehensive income attributed to owners of the parent company		Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Total comprehensive income attributed to non-controlling interests		Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Earnings per share (EPS)		17.48	20.41	24.67	29.23	21.91	

【Note 1】 There is no individual financial statements for the first quarter of 2019, so it is not applicable.

【Note 2】 According to the Rule No. 1050036477 issued by FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the revised financial statements.

### 6.1.2 Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2014	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion Subsequent to Revision
2015	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion Subsequent to Revision
2016	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion
2017	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion
2018	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion

## 6.2 Five-Year Financial Analysis - Taiwan-IFRSs adopted

### 6.2.1 Five-Year Consolidated Financial Analysis – Taiwan IFRSs Adopted

In %

Item	Year	Financial Analysis for The Last Five Years					2019 (as of Mar 31)
		2014	2015	2016	2017	2018	
Financial structure	Debt ratio(%)	29.20	27.69	28.08	25.82	26.14	28.67
	Long-term fund to property, plant and equipment ratio(%)	1,026.76	1,255.03	947.81	923.11	899.99	930.25
Liquidity Analysis	Current ratio (%)	301.74	318.26	300.48	321.41	324.92	299.23
	Quick ratio (%)	220.77	250.14	241.07	240.85	243.81	203.39
	Times Interest Earned (times)	1,362.65	1,476.84	2,668.77	1,349.70	988.22	4,051.26
Operating performance Analysis	Average Accounts receivable turnover (times)	8.59	8.81	9.48	7.95	7.43	7.66
	Days sales outstanding	42.49	41.43	38.50	45.91	49.12	47.65
	Average Inventory turnover (times)	4.90	5.52	6.59	4.89	4.29	3.20
	Average Accounts payable turnover (times)	6.20	7.16	8.51	8.09	7.49	5.14
	Average Inventory turnover Days	74.48	66.12	55.38	74.64	85.08	114.06
	Property, plant and equipment turnover (times)	20.33	22.87	21.55	15.95	14.03	12.48
	Total assets turnover (times)	1.42	1.44	1.45	1.25	1.14	0.99
Profitability Analysis	Return on total assets (%)	12.06	14.96	15.91	17.18	12.08	9.34
	Return on Equity (%)	17.66	20.88	22.05	23.49	16.30	12.87
	Pre-tax income to paid-in capital ratio(%)	179.13	226.64	277.91	340.88	253.97	211.27
	Net Profit ratio (%)	8.47	10.42	10.97	13.76	10.59	9.44
	Basic Earnings per share (NT\$)	17.48	20.41	24.67	29.23	21.91	4.47
Cash flow	Cash flow ratio (%)	17.27	55.68	55.62	43.20	55.34	1.90
	Cash flow adequacy ratio (%)	112.83	114.25	116.20	92.61	114.62	102.51
	Cash flow reinvestment ratio (%)	(4.15)	10.18	11.02	4.18	6.73	0.74
Leverage	Operating leverage	1.06	1.05	1.05	1.05	1.09	1.11
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00

#### 1. Causes of change for the last two years:

- (1) The Times Interest Earned times down is because of the decreasing of Profit before Income Tax in 2018.
- (2) The Return on total assets and Return on Equity down is because of the decreasing of Net Profit in 2018.
- (3) The Pre-tax income to paid-in capital down is because of the the decreasing of Net Profit in 2018.
- (4) The Cash flow ratio, the Cash flow adequacy ratio and the Cash flow reinvestment ratio growth is because of the increasing of the Net cash generated from operating activities which is due to the Accounts Payable increasing in the end of 2018.

【Note】 According to the Rule No. 1050036477 issued by FSC, the Corporation has restated its financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the restated finance statements.

## 6.2.2 Financial Analysis –Nonconsolidated, Taiwan-IFRSs adopted

In %

Item	Year	Financial Summary for The Last Five Years				
		2014	2015	2016	2017	2018
Financial structure	Debt Ratio(%)	27.38	26.50	26.84	24.64	25.14
	Long-term fund to property, plant and equipment ratio(%)	1,013.97	1,247.40	960.92	932.95	908.84
Liquidity Analysis	Current ratio (%)	317.51	317.60	300.56	321.04	322.48
	Quick ratio (%)	230.26	244.75	237.32	235.51	238.01
	Times Interest Earned (times)	1,528.71	1,505.91	2,695.69	1,348.76	987.26
Operating performance Analysis	Average Accounts receivable turnover (times)	8.12	8.61	9.58	8.03	7.50
	Days sales outstanding	44.95	42.39	38.10	45.45	48.66
	Average Inventory turnover (times)	5.81	5.55	6.58	4.89	4.31
	Average Accounts payable turnover (times)	7.42	7.17	8.49	8.08	7.50
	Average Inventory turnover Days	62.82	65.76	55.47	74.64	84.68
	Property, plant and equipment turnover (times)	20.43	22.74	21.72	16.11	14.18
	Total assets turnover (times)	1.54	1.47	1.48	1.27	1.16
Profitability Analysis	Return on total assets (%)	15.03	15.88	16.48	17.47	12.26
	Return on Equity (%)	20.96	21.71	22.47	23.49	16.30
	Pre-tax income to paid-in capital (%)	200.98	231.10	280.72	340.64	253.73
	Net Profit ratio (%)	9.75	10.80	11.14	13.79	10.58
	Basic Earnings per share (NT\$)	17.48	20.41	24.67	29.23	21.91
Cash flow	Cash flow ratio (%)	21.62	64.63	59.01	46.42	58.27
	Cash flow adequacy ratio (%)	108.37	112.99	113.88	91.45	109.76
	Cash flow reinvestment ratio (%)	(3.33)	11.98	10.95	4.35	6.74
Leverage	Operating leverage	1.05	1.05	1.05	1.05	1.09
	Financial leverage	1.00	1.00	1.00	1.00	1.00

## 1. Analysis of financial ratio differences for the previous two years:

- (1) The Times Interest Earned times down is because of the decreasing of Profit before Income Tax in 2018.
- (2) Average Accounts payable turnover down is because of the increasing of Accounts Payable in the end of 2018.
- (3) The Return on total assets and Return on Equity attributable to owners of parent company down is because of the decreasing of Net Profit in 2018.
- (4) The Pre-tax income to paid-in capital down is because of the the decreasing of Net Profit in 2018.
- (5) The Cash flow ratio, the Cash flow adequacy ratio and the Cash flow reinvestment ratio growth is because of the increasing of the Net cash generated from operating activities which is due to the Accounts Payable increasing in the end of 2018.

【Note】 According to the Rule No. 1050036477 issued by FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the revised finance statements.

\*\*Formulas to calculate the financial analyses are as follows:

1. Financial structure

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

- (1) Current ratio = Current Assets / Current Liabilities
- (2) Quick ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating performance Analysis

- (1) Average Accounts receivable turnover = Net Sales / Average Trade Receivables
- (2) Days sales outstanding = 365 / Average Collection Turnover
- (3) Average Inventory turnover = Cost of Sales / Average Inventory
- (4) Average Inventory turnover Days = 365 / Average Inventory Turnover
- (5) Average Accounts payable turnover = Cost of Sales / Average Trade Payables
- (6) Property, plant and equipment turnover = Net Sales / Average Net Property, Plant and Equipment
- (7) Total assets turnover = Net Sales / Average Total Assets

4. Profitability Analysis

- (1) Return on total assets = (Net Income + Interest Expenses \* (1 - Effective Tax Rate)) / Average Total Assets
- (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
- (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
- (4) Pre-tax income to paid-in capital Ratio = Income before Tax / Paid-in Capital
- (5) Net Profit ratio = Net Profit / Operating revenues
- (6) Basic Earnings per share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

### 6.3 2018 Supervisors' Review Report

## Supervisors' Review Report

The board of directors prepared the Company's 2018 Business Report and Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution, etc. Mr. Dai Xinwei and Mr. Fan Youwei, the independent auditors from the CPA firm of Deloitte & Touche audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution were audited by Supervisor and found no discrepancy, as reported in accordance with the Article 219 of the Company Act, please check.

To

2019 Annual General Meeting of Shareholders

Phison Electronics Corporation

Supervisor : Yang Jiunn Yeong

Supervisor : Chen Chiun Hsiou

Supervisor : Wang Huei Ming

Mar 21, 2019

- 6.4 The Consolidated Financial Statements for the Year of 2018 (including Auditors' Report, Balance Sheet, Statements of Comprehensive Income, Changes in Equity, Cash Flows, and Notes and additional Tables): please refer to page 124 to page 203.**
- 6.5 The Audited Nonconsolidated Financial Statement for the Year of 2018: please refer to page 204 to page 279.**
- 6.6 The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2018 and as of the date of this Annual Report: None.**

## VII. Financial Status and Operating Results Review and Risk Matters

### 7.1 Financial Status Analysis

#### Consolidated Balance Sheet

In thousand in NT\$

Item	Year		Difference	
	2018.12.31	2017.12.31	Amount	%
Cash and cash equivalents	14,176,396	14,142,389	34,007	0.24%
Financial assets at fair value through profit or loss – current-current	3,077,540	1,271,217	1,806,323	142.09%
Notes and accounts receivable	5,243,958	5,731,455	(487,497)	(8.51%)
Inventories	7,576,721	7,192,346	384,375	5.34%
Other current assets	531,192	472,280	58,912	12.47%
Financial assets at fair value through profit or loss (FVTPL)-non-current (Applicable after adopting IFRS 9)	427,789	0	427,789	-
Financial assets at fair value through other comprehensive income (FVTOCI)-non-current (Applicable after adopting IFRS 9)	450,397	0	450,397	-
Available-for-sale financial assets-non-current	0	434,763	(434,763)	-
Financial assets measured at cost-non-current	0	817,627	(817,627)	-
Investments accounted for using the equity method	1,494,049	1,709,711	(215,662)	(12.61%)
Property, plant and equipment	2,990,231	2,822,881	167,350	5.93%
Other non-current assets	470,267	531,935	(61,668)	(11.59%)
<b>Total assets</b>	<b>36,438,540</b>	<b>35,126,604</b>	<b>1,311,936</b>	<b>3.73%</b>
Short-term debt	0	0	0	0.00%
Notes and accounts payable	4,805,547	3,647,245	1,158,302	31.76%
Other current liabilities	4,614,084	5,316,163	(702,079)	(13.21%)
Non-current liabilities	107,039	104,881	2,158	2.06%
<b>Total liabilities</b>	<b>9,526,670</b>	<b>9,068,289</b>	<b>458,381</b>	<b>5.05%</b>
Share capital	1,970,740	1,970,740	0	0.00%
Capital surplus	6,674,650	6,660,502	14,148	0.21%
Retained earnings	18,647,407	17,390,657	1,256,750	7.23%
Other equity	(380,927)	36,416	(417,343)	(1,146.04%)
<b>Total equity attributable to owners of the Corporation</b>	<b>26,911,870</b>	<b>26,058,315</b>	<b>853,555</b>	<b>3.28%</b>
Non-controlling interests	0	0	0	0.00%
<b>Total Equity</b>	<b>26,911,870</b>	<b>26,058,315</b>	<b>853,555</b>	<b>3.28%</b>



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Cause and impact of the significant differences (more than 20% and NT\$ 10 millions) of assets, liabilities and equities in the last two year:

- (1) The Financial assets at fair value through profit or loss – current growth is because the investments of MMFs.
  - (2) The Notes and accounts payable growth is mainly because the delayed payment due to bank closed on holiday in the end of the period.
  - (3) The Other equity changes is because the loss of Unrealized Gain(Loss) on Financial Assets at Fair Value Through Other Comprehensive Income due to adopting IFRS 9 from the beginning of 2018.
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## 7.2 Operating Results Analysis

### 7.2.1 The Comparison of Operating Result

#### Consolidated Statements of Comprehensive Income Statement

In thousand in NT\$

Item	2018		2017		2018
	Amount	%	Amount	%	Growth Rate
Operating revenues	40,788,105	100.00%	41,864,759	100.00%	(2.57%)
Operating costs	31,656,151	77.61%	30,365,137	72.53%	4.25%
Gross profit	9,131,954	22.39%	11,499,622	27.47%	(20.59%)
Marketing expenses	513,837	1.26%	531,728	1.27%	(3.36%)
General and administrative	441,225	1.08%	522,373	1.25%	(15.53%)
Research and development	3,495,417	8.57%	3,713,829	8.87%	(5.88%)
Reversal of expected credit losses	(28,309)	(0.07%)	-	-	-
Total operating expenses	4,422,170	10.84%	4,767,930	11.39%	(7.25%)
Operating income	4,709,784	11.55%	6,731,692	16.08%	(30.04%)
Non-operating income and expenses	295,397	0.72%	(13,822)	(0.03%)	2,237.15%
Profit before income tax	5,005,181	12.27%	6,717,870	16.05%	(25.49%)
Income tax expense	687,062	1.68%	956,580	2.29%	(28.18%)
Net profit for the year	4,318,119	10.59%	5,761,290	13.76%	(25.05%)
Other comprehensive income(loss) for the year, net of income tax	(171,742)	(0.42%)	57,409	0.14%	(399.16%)
Total comprehensive income for the year	4,146,377	10.17%	5,818,699	13.90%	(28.74%)
Net profit attributable to owners of parent company	4,318,119	10.59%	5,760,972	13.76%	(25.05%)
Total comprehensive income attributable to owners of parent company	4,146,377	10.17%	5,816,473	13.89%	(28.71%)
Earnings per share (NT\$)	21.91		29.23		(25.04%)

1. Cause and impact of the significant differences (more than 20% and NT\$ 10 millions) in the last two year:

- (1) The Gross profit down is because of sales prices slipping as the main materials of NAND supply and demand imbalance.
- (2) The Operating income down is because of the decreasing of The Gross profit.
- (3) The Non-operating income and expenses in gain is because of the gain of foreign currency exchange and the subsidiaries get grant subsidy income.
- (4) The Profit before income tax, Income tax expense and Net profit for the year down is because of the decreasing of Gross profit.
- (5) Other comprehensive income for the year down is because of the adjusting of Unrealized Gain(Loss) on Financial Assets at Fair Value Through Other Comprehensive Income.
- (6) Total comprehensive income for the year, Net profit attributable to owners of parent company, Total comprehensive income attributable to owners of parent company and Earnings per share down is because of the decreasing of Gross profit.

2. Estimated sales volume of the year of 2019, the basics and the possible impact on the Company's financial and business in future and the plan in response:

According to the company's product launch schedule, business plan, market demand forecast, industry competitive situation and the major customer's business outlook assessment and other estimates, the company is estimated that in 2019 total shipments of flash memory controllers and related system applications are about 680 million units. The company continually enhances the quality of mature products to stabilize market share ; and new applications are introducing in leading to maintain the image of "technology and innovative products leading" and to strengthen the company's competitiveness with a positive effect to the company's performance.

### 7.2.2 The Operating Gross Profit Difference Analysis

In thousand in NT\$

Item	Difference	Cause for the differences			
		Sales Price difference	Cost difference	Sales combination difference	Quantity difference
Operating gross profit	(2,367,668)	(11,563,977)	5,954,045	892,297	2,349,967
Reason	1. Market Price difference disadvantage: mainly due to the decrease in market price of the products, which was effected by the supply and demand imbalance of material. 2. Cost difference advantage: mainly due to decreasing market price of NAND flash force the the cost of good sales going down. 3. Sales combination difference advantage: mainly due to the adjusting of products portfolio to increase the shipment of high margin products in the priod. 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 the Year of 2018

In thousand in NT\$

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash generate from Operating Activities (2)	Cash used in investing and financing activities (3)	Cash Balance (1)+(2)-(3)	Remedy for liquidity shortfall	
				Investment Plans	Financing Plans
14,142,389	5,213,184	5,179,177	14,176,396	Not applicable	Not applicable

Analysis of the clash flow difference of the year:

Net cash generated from Operating activities: mainly from the NT\$50 billion of net profit before tax in 2018.

Net cash used in Investing activities: mainly used in the purchase of financial assets at fair value through profit or loss.

Net cash used in Financing activities: primarily for cash dividends payment.

7.3.2 Remedy Action for Liquidity Shortfall: None.

7.3.3 Cash Flow Projection for the Next Year

In thousand in NT\$

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash generate from Operating Activities (2)	Estimated Cash used in investing and financing activities (3)	Estimated Cash Balance (1)+(2)-(3)	Remedy for liquidity shortfall	
				Investment Plans	Financing Plans
14,176,396	1,600,000	4,200,000	11,576,396	Not applicable	Not applicable

1. Analysis of the clash flow difference of the next year:

Net cash generate by Operating activities: mainly based on predictions of the market demand and the operating status.

Net cash used in Investing activities: mainly for purchase of PPEs, intangible assets and new investment plans.

Net cash used in Financing activities: mainly consider for cash dividends to shareholders.

2. Remedy Action for Estimated Liquidity Shortfall: None

## **7.4 Recent Years Major Capital Expenditures and Impact on Financial and Business**

- 7.4.1 Major Capital Expenditure Items and Source of Capital:None.
- 7.4.2 Impact on Finance and Business:None.
- 7.4.3 Expected Benefits:None.

## **7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Next Year**

### 7.5.1 Investment policy in the last year

The investment policy of the company is to help the company to improve the technology of NAND Flash system integration. The major directions for the investment are strategic investment, diversified operating and expanding the business of the company, and increasing the investment profit to promote shareholders' interest.

### 7.5.2 Main causes for profits or losses

In 2018, the investment loss from investments accounted for by the equity method is NT\$174,654 thousands, mainly due to the decrease in net loss from one of the invested related parties.

### 7.5.3 Investment Plans for the Next Year

The investment plans of the next year focused on the strategic investment, which the company may establish operating branches in Mainland China and major domestic/overseas market based on the industry environment and the needs of Phison Group's development. Investment plans should be carefully reviewed then submitted to the board meeting for approval.

## **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

1. Interest rate: the assets and liabilities with floating interest rate held by the company may fluctuate cash flows of the assets and liabilities in future due to the changes of interest rate and result in risks. Yet the company anticipates that the change of interest rate will not significant impact on the cash flow of the company in future.

The interest paid of the company and its subsidiary companies in 2017 and 2018 are NT\$4,981 thousand and NT\$5,070 thousand respectively, accounting for 0.0119% and 0.0124% of the net operating revenue of the corresponding year. So, the change of interest rate has no significant impact on the overall operation of the company.

The company's loan in the past is on credit loans and no long-term loans. By the end of 2018, don't have the short-term loans. There is no plan for long-term loans in the next year, so the change of interest rate has no significant impact on the net results of the company. Yet the company will continually pay attention to the trend of interest rate movements and regularly assess

the financial policies.

2. Foreign exchange rate: 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 is roughly offset against the gains and losses of the hedged items. Therefore, the market risk is not significant.

This 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 impact on the revenue and profit of the company. In 2018, the foreign exchange gain is NT\$185,916 thousand, which is the profit resulted from the change of foreign exchange rate. The finance department of the company pay attention to the trend at all times to hedge against the risk. In addition, the finance department keeps 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 rate.

3. Inflation: as of the end of 2018, 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 2018 and 2019 before the publication of the annual report, the company only makes short-term transaction 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 acquisition or disposal of assets”, “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee” and “Procedures for Engaging in Derivatives Trading”. Up to now, the company has never loaned money to others and never

endorsed for others. The company limits its derivative product trades only to hedge trades. Therefore, these operations will not effect on the profit or loss of the company.

#### 7.6.3 Future Research & Development Projects and Corresponding Budget

##### 7.6.3.1 Major R & D Projects in 2019:

1. High speed, high capacity USB 3.2 Flash Drive solutions.
2. SD 7.0 (SD Express) controllers.
3. UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
4. High performance PCIe NVMe controllers and solutions.
5. 12nm PHYs.
6. Enterprise and Datacenter SSD controllers.
7. New LDPC ECC engines for emerging 3D QLC NAND Flash.
8. System in Package SSD solutions.
9. Automotive SSD solutions.

7.6.3.2 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 2019 is approximately \$ 3.9 billion.

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

This 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 this company. We will continue to pay attention to domestic /overseas changes on policies and law amendments, evaluate these changes accordingly at all times. Up to now, there is no impact on the finances of this company 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 this company. We will invest more R&D resources into these products to respond to the new challenge from the new technology.
2. With the advance 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 the product development. We have successfully introduced TIPTOP GP ERP System, AgentFlow system, Phison life plaza 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. The committee, has obtained the BSI British Standards Association ISO27001 international security certificate, will hold reviewing meeting annually to improve information security and applicability of evaluation, keeps strengthen colleagues and organization over information security protection and establishes 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 creste the image of "youngest, fastest and strongest in the operation of this industry". Up to now, the company keeps good image and no significant change to endanger the company.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

In 2018 and up to the date of publishing the annual report, we have no plan of merger and acquisition.

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans: Not applicable.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

1. Excessive Concentration of Purchasing Sources: Phison Electronics Corporation is a company focusing on the flash memory controllers and flash memory application system products (i.e. flash 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, Toshiba in Japan, Hynix in Korea, Micron and Sandisk in US. The development of controllers and system products need 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 Taiwan Toshiba Memory (Toshiba TMTC) TMTC, which is a subsidiary of subsidiary company of Toshiba Memory Japan. Toshiba Memory Japan invested in the company due to the capability of controller and system product design. Toshiba Japan invested and closely collaborated with the company to develop various products.The company applicate the new flash memory technologies of MLC (Multiple Cell Type), TLC (Triple-level Cell) and 3D Nand from Toshiba Japan to design the controllers with high performance and high compatibility. The company also purchases the relevant flash memory application products from the affiliates of Toshiba Japan for our system products. The high performance of the firmware in controllers by using Toshiba

flash memory and we have successfully developed many flash memory application products, our partnership with Toshiba goes closer and smoothly. Those are the reason the company purchased flash memory from the affiliates of Toshiba Japan in the excessive concentration of purchasing sources.

2. Excessive Customer Concentration: there is no such situation in this company.

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: None.

7.6.12 The Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation, Mr. Khein Seng Pua, and others culminating in either deferred prosecution or the dropping of the claim for further prosecution. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation, Mr. Pua Khein Seng, and others, the case is under re-investigation, and the financial position and operation of the Corporation is not affected in respect of this matter.

7.6.13 Other Major Risks: None.

**7.7 Other Major Events: None.**

## VIII. Special Disclosure

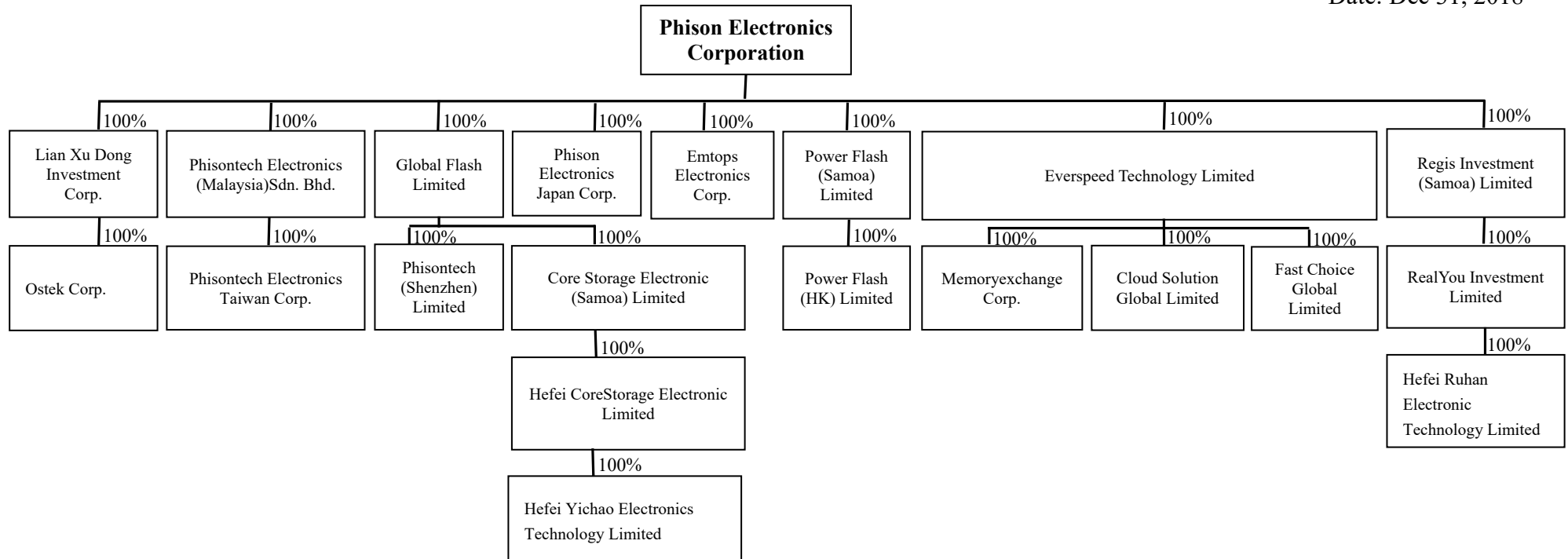
### 8.1 Summary of Affiliated Companies

#### 8.1.1 Consolidated Business Report

##### 8.1.1.1 Profile of Affiliates

##### Organization Chart of Affiliates

Date: Dec 31, 2018



This company has no other affiliate under the inference by Article 369.3 of Company Act.

### 8.1.1.2 The name, incorporation date, address, paid-in capital, and main business items of each affiliate

As of 31/12/2018; in thousand

Company Name	Date of Incorporation	Registration Address	Capital			Major Business or Product	Remark
			Original Currency		NT Dollar		
Lian Xu Dong Investment Corp.	Aug 2005	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	650,000	650,000	Investment	subsidiary
Phisontech Electronics (Malaysia) Sdn. Bhd.	Apr 2012	First Floor, Acctax Corporate Centre, No 2 Jalan Bawasah, 10050 Georgetown, Pulau Pinang, Malaysia	MYR	10,000	93,990	Design, production and sale of flash memory controllers and peripheral system applications	subsidiary
Global Flash Limited	Jun 2012	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	USD	21,000	665,823	Investment and trade	subsidiary
Phison Electronics Japan Corp.	Feb 2011	26th Floor, World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6126, Japan	JPY	200,000	59,508	Sales and service office	subsidiary
Emtops Electronics Corp.	Mar 2011	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	95,000	95,000	Sale of flash memory controllers and peripheral system applications products	subsidiary
Power Flash (Samoa) Limited	Jul 2015	Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa	USD	3,200	105,440	Investment and trade	subsidiary
Everspeed Technology Limited	May 2002	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	-	-	-	Trade of electronic components	subsidiary
Regis Investment (Samoa) Limited	Jan 2018	Portcullis Chambers, P.O. Box 1225, Apia, Samoa	USD	6,700	199,332	Investment	subsidiary
Ostek Corp. 【Note 1】	Aug 2005	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
Phisontech Electronics Taiwan Corp. 【Note 2】	May 2013	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	10,000	10,000	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	Sub-subsidiary
Phisontech (Shenzhen) Limited 【Note 3】	Dec 2012	Rm. 2508-2509, West block, Great China International Exchange Square, No. 1, Fubua Rd., Futian streets, Futian District, Shenzhen City, China	USD	1,790	53,096	Design, R&D, import and export of storage devices and electronics	Sub-subsidiary
Core Storage Electronic (Samoa) Limited 【Note 3】	Apr 2015	TMF Chambers, P.O.Box 3269, Apia, Samoa	USD	18,050	576,229	Investment and trade	Sub-subsidiary
Hefei Core Storage Electronic Limited 【Note 4】	Jul 2015	Hefei High-tech Zone Innovation Industrial Park F1 Floor Room 1409, China	USD	18,000	576,780	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	Sub-subsidiary
Power Flash (HK) Limited 【Note 5】	Aug 2015	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	3,000	98,754	Sale of electronic products	Sub-subsidiary
Memoryexchange Corp. 【Note 6】	May 2006	2F, No.1, Qunyi Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)	NTD	409,500	409,500	Design and sale of flash memory related products	Sub-subsidiary
Fast Choice Global Limited 【Note 6】	May 2013	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD	50	1,482	Trade of electronic components	Sub-subsidiary
Cloud Solution Global Limited	Oct 2012	Vistra Corporate Services Centre, Wickhams Cay II, Road	USD	5,950	186,963	Trade of electronic components	Sub-subsidiary

Company Name	Date of Incorporation	Registration Address	Capital		Major Business or Product	Remark
			Original Currency	NT Dollar		
<b>【Note 6】</b>		Town, Tortola, VG1110, British Virgin Islands				
RealYou Investment Limited <b>【Note 7】</b>	Feb 2018	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	6,650	197,760	Investment Sub-subsiary
Hefei Yichao Electronic Technology Limited <b>【Note 8】</b>	Jul 2018	Room 1201,F3 Floor,HIGH-TECH ZONE INNOVATION INDUSTRIAL PARK,HEFEI,ANHUI,CHINA	CNY	40,500	185,369	Design, R&D, sale of electronics hardware and software and rendering of related services and investment Sub-subsiary
Hefei Ruhao Electronics Technology Limited <b>【Note 9】</b>	May 2018	Room 2046,Building D8,Hefei Innovation Industrial Park,2800 Wangjiang West Road,Hefei High-tech Zone	CNY	40,800	182,825	Design, R&D, sale of electronics hardware and rendering of related services and investment Sub-subsiary

**【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 Phisontech Electronics (Malaysia) Sdn. Bhd.

**【Note 3】** This company is our subsidiary of subsidiary company via Global Flash Limited.

**【Note 4】** This company is our subsidiary of subsidiary company via Core Storage Electronic (Samoa) Limited.

**【Note 5】** This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

**【Note 6】** This company is our subsidiary of subsidiary company via Everspeed Technology Limited.

**【Note 7】** This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.

**【Note 8】** This company is our subsidiary of subsidiary company via Hefei Core Storage Electronic Limited.

**【Note 9】** This company is our subsidiary of subsidiary company via Real You Investment Limited.

8.1.1.3 Affiliate under the inference by Article 369.3 of Company Act.: none.

8.1.1.4 Business types of the affiliates. If there is relationship between two of the affiliates, it should be illustrated.

Business types of this company and the affiliates:

- Design, production and sale of flash memory controllers and peripheral system applications.
- Investment.
- Investment and trade.
- Design, R&D, import and export of storage devices and electronics.
- Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service.
- Manufacture and trade of electronic components
- Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.

Mission division of the affiliates with relationship

Company	Mission division of the affiliates with relationship
Phisontech Electronics (Malaysia) Sdn. Bhd.	Focus on the sale and technology integration of the flash memory application products in Malaysia.
Phison Electronics Japan Corp.	Customer development and service in Japan.
Emtops Electronics Corp.	Sales of flash memory peripheral application products.
Ostek Corp.	Testing of the flash memory components.
Phisontech Electronics Taiwan Corp.	Design integration service and Silicon IP agent for Phison Electronics Corporation and Phisontech Electronics (Malaysia) Sdn. Bhd.
Phisontech (Shenzhen) Limited	Customer development and service in China.
Hefei Core Storage Electronic Limited	R&D center in China; focus on the development, sale and relevant technology service of the flash memory application products in China.
Hefei Ruhan Electronic Technology Limited	Sales of flash memory peripheral application products.
Power Flash (HK) Limited	Sales of flash memory peripheral application products.

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

As of 31/12/2018; in share in %

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Lian Xu Dong Investment Corp.	Director and supervisor	Phison Electronics Corporation	65,000,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	Aw Yong Chee Kong	0	0.00%
	Legal representative director	Chiu Shu Hua	0	0.00%
	Legal representative supervisor	Liu Hsiu Chin	0	0.00%
Phisontech Electronics (Malaysia) Sdn. Bhd.	Parent company	Phison Electronics Corporation	10,000,000	100.00%
	Director	Pua Khein Seng	0	0.00%
	Director	Aw Yong Chee Kong	0	0.00%
	Director	Pua Khein Keong	0	0.00%
Global Flash Limited	Parent company	Phison Electronics Corporation	21,000,000	100.00%
	Director	Pua Khein Seng	0	0.00%
	Director	Aw Yong Chee Kong	0	0.00%
Phison Electronics Japan Corp.	Parent company	Phison Electronics Corporation	2,000	100.00%
	Director	Kuang Tzong Hong	0	0.00%
	Director	Tanaka Motoji	0	0.00%
Emtops Electronics Corp.	Director and supervisor	Phison Electronics Corporation	9,500,000	100.00%
	Legal representative chairman	Kuang Tzong Hong	0	0.00%
	Legal representative director	Fu Chia I	0	0.00%
	Legal representative director	Ma Chung Hsun	0	0.00%
	Legal representative supervisor	Yu Zhi Chyang	0	0.00%

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Power Flash (Samoa) Limited	Parent company	Phison Electronics Corporation	3,200,000	100.00%
	Legal representative director	Phison Electronics Corporation	3,200,000	100.00%
	Director	Kuang Tzong Hong	0	0.00%
Everspeed Technology Limited	Parent company	Phison Electronics Corporation	1,000,000	100.00%
	Legal representative director	Phison Electronics Corporation	1,000,000	100.00%
Regis Investment (Samoa) Limited	Parent company	Phison Electronics Corporation	6,700,000	100.00%
	Legal representative director	Phison Electronics Corporation	6,700,000	100.00%
Ostek Corp. 【Note 1】	Director and supervisor	Lian Xu Dong Investment Corp.	900,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	Kuang Tzong Hong	0	0.00%
	Legal representative director	Gan Wee Kuan	0	0.00%
	Legal representative supervisor	Peng Hsiao Chun	0	0.00%
Phisontech Electronics Taiwan Corp. 【Note 2】	Director and supervisor	Phisontech Electronics (Malaysia) Sdn.Bhd.	1,000,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	Aw Yong Chee Kong	0	0.00%
	Legal representative director	Hsu Chih Jen	0	0.00%
	Legal representative supervisor	Chiu Shu Hua	0	0.00%
Phisontech (Shenzhen) Limited 【Note 3】	Parent company	Global Flash Limited	USD 1,790,000	100.00%
	Executive director	Tsai Shu Hui	0	0.00%
	Supervisor	Wu Chung Lin	0	0.00%



Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Core Storage Electronic (Samoa) Limited 【Note 3】	Parent company	Global Flash Limited	18,050,000	100.00%
	Director	Pua Khein Seng	0	0.00%
	Director	Aw Yong Chee Kong	0	0.00%
Hefei Core Storage Electronic Limited 【Note4】	Parent company	Core Storage Electronic (Samoa) Limited	USD18,000,000	100.00%
	Executive director	Wang Chih Ling	0	0.00%
	Supervisor	Lin Wai	0	0.00%
Power Flash (HK) Limited 【Note 5】	Parent company	Power Flash (Samoa) Limited	3,000,000	100.00%
	Director	Tsai Shu Hui	0	0.00%
	Director	Tsay Huei Chen	0	0.00%
Memoryexchange Corp. 【Note 6】	Director and supervisor	Everspeed Technology Limited	40,950,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	Yu Zhi Chyang	0	0.00%
	Legal representative director	Tsai Chen Hao	0	0.00%
	Legal representative supervisor	Chiu Shu Hua	0	0.00%
Fast Choice Global Limited 【Note 6】	Parent company	Everspeed Technology Limited	50,000	100.00%
	Legal representative director	Phison Electronics Corporation	0	0.00%
Cloud Solution Global Limited 【Note 6】	Parent company	Everspeed Technology Limited	5,950,440	100.00%
	Legal representative director	Phison Electronics Corporation	0	0.00%
RealYou Investment Limited 【Note 7】	Parent company	Regis Investment (Samoa) Limited	6,650,000	100.00%
	Director	Chang Yu Chu	0	0.00%
Hefei Yichao Electronics Technology Limited 【Note 8】	Parent company	Hefei Core Storage Electronic Limited	CNY40,500,000	100.00%
	Executive director	Wang Chih Ling	0	0.00%
	Supervisor	Liao Wan Hsin	0	0.00%

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Hefei Ruhan Electronic Technology Limited 【Note 9】	Parent company	RealYou Investment Limited	CNY40,800,000	100.00%
	Executive director	Cheng Kuo Yi	0	0.00%
	Supervisor	Liao Wan Hsin	0	0.00%

【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 Phisontech Electronics (Malaysia) Sdn. Bhd.

【Note 3】 This company is our subsidiary of subsidiary company via Global Flash Limited.

【Note 4】 This company is our subsidiary of subsidiary company via Core Storage Electronic (Samoa) Limited.

【Note 5】 This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

【Note 6】 This company is our subsidiary of subsidiary company via Everspeed Technology Limited.

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【Note 8】 This company is our subsidiary of subsidiary company via Hefei Core Storage Electronic Limited.

【Note 9】 This company is our subsidiary of subsidiary company via Real You Investment Limited.

### 8.1.1.6 Operation Summary of the Affiliates

As of 31/12/2018; in thousand in NT\$

Name of Subsidiary	Capital	Assets	Liabilities	Net Worth	Net Revenue	Income(loss) from Operation	Net Income(Loss) (after tax)	EPS (NT\$/ after tax)
Lian Xu Dong Investment Corp.	650,000	484,517	150	484,367	621	(896)	(211)	—
Phisontech Electronics (Malaysia) Sdn. Bhd.	93,990	74,420	10,145	64,275	25,577	(2,047)	1,414	0.14
Global Flash Limited	665,823	628,701	0	628,701	0	(75)	34,684	—
Phison Electronics Japan Corp.	59,508	36,025	1,261	34,764	15,083	591	(17)	—
Emtops Electronics Corp.	95,000	71,358	256	71,102	0	(731)	994	0.10
Power Flash (Samoa) Limited	105,440	101,359	0	101,359	0	(61)	553	—
Everspeed Technology Limited	-	252,981	0	252,981	0	(218)	112,544	—
Regis Investment (Samoa) Limited	199,332	205,618	0	205,618	0	(46)	769	—
Ostek Corp. 【Note1】	9,000	61,000	8,145	52,855	34,152	268	(691)	(0.77)
Phisontech Electronics Taiwan Corp. 【Note 2】	10,000	49,101	7,466	41,635	17,861	4,296	2,880	2.88
Phisontech (Shenzhen) Limited 【Note3】	53,096	13,324	4,547	8,777	21,332	(14,806)	(14,830)	—
Core Storage Electronic (Samoa) Limited 【Note 3】	576,229	599,958	0	599,958	0	(40)	49,188	—
Hefei Core Storage Electronic Limited 【Note 4】	576,780	684,064	85,172	598,892	489,881	14,818	49,190	—
Power Flash (HK) Limited 【Note 5】	98,754	95,351	43	95,308	0	(120)	403	—
Memoryexchange Corp. 【Note 6】	409,500	471,506	354,988	116,518	0	(283)	109,154	2.67
Fast Choice Global Limited 【Note 6】	1,482	2,681	0	2,681	0	(44)	(40)	—
Cloud Solution Global Limited 【Note 6】	186,963	11,984	0	11,984	0	(71)	339	—
RealYou Investment Limited 【Note 7】	197,760	204,123	0	204,123	0	(130)	845	—

Name of Subsidiary	Capital	Assets	Liabilities	Net Worth	Net Revenue	Income(loss) from Operation	Net Income(Loss) (after tax)	EPS (NT\$/ after tax)
Hefei Yichao Electronics Technology Limited 【Note 8】	185,369	180,191	58	180,133	0	(50)	(1,003)	—
Hefei Ruhan Electronic Technology Limited 【Note 9】	182,825	205,013	21,862	183,151	107,194	1,023	703	—

【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 Phisontech Electronics (Malaysia) Sdn. Bhd.

【Note 3】 This company is our subsidiary of subsidiary company via Global Flash Limited.

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【Note 5】 This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

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【Note 7】 This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.

【Note 8】 This company is our subsidiary of subsidiary company via Hefei Core Storage Electronic Limited.

【Note 9】 This company is our subsidiary of subsidiary company via Real You Investment Limited.

- 8.1.2 Consolidated financial statement of affiliates: for 2018 (Jan 1, 2018 through to Dec 31, 2018), companies that are required to be included in the consolidated financial statements of affiliates in accordance with “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are identical with those that must be included in the consolidated financial statements of parent and subsidiary under International Accounting Standard No. 10. Since matters that must be disclosed by consolidated financial statements of affiliates have been disclosed by consolidated financial statements of parent and subsidiary, no consolidated financial statements of affiliates are separately prepared.
- 8.1.3 Report of affiliates: In the absence of any presumed subordinate, no such report is prepared.

## 8.2 Private Placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report

As of 24/5/2019

Item	Date of approval by board of directors: Mar 16, 2018 Approved quantity: less than 18,000,000 shares	Date of approval by board of directors: Mar 21, 2019 Approved quantity: less than 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 the Article 43.6 of Securities and Exchange Act and the TaiTasiCheng No. 0910003455 Order of Financial Supervisory Commission and be limited to strategic investors.	The specified parties should meet the requirements in the Article 43.6 of Securities and Exchange Act and the TaiTasiCheng No. 0910003455 Order of Financial Supervisory Commission and be limited to strategic investors.																				
Reasons for private placement	Considering the timeliness and feasibility of the capital market, issuance cost and private placement, as well as the limitation of no trade within 3 year to enforce the long-term partnership, we have to use private placement to issue new shares by cash.	Considering the timeliness and feasibility of the capital market, issuance cost and private placement, as well as the limitation of no trade within 3 year to enforce the long-term partnership, we have to use private placement to issue new shares by cash.																				
Date of payment and completion	Not applicable	Not applicable																				
Information on contributing parties	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Target</th> <th style="width: 15%;">Eligibility</th> <th style="width: 15%;">Quantity Purchased</th> <th style="width: 15%;">Relationship with the Company</th> <th style="width: 15%;">Participation in Company Operations</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations						<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Target</th> <th style="width: 15%;">Eligibility</th> <th style="width: 15%;">Quantity Purchased</th> <th style="width: 15%;">Relationship with the Company</th> <th style="width: 15%;">Participation in Company Operations</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations					
Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations																		
Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations																		
Actual purchase (or conversion) price	Not applicable	Not applicable																				
Difference between the actual purchase (or conversion) price and the reference price	Not applicable	Not applicable																				
Impact of private placement on shareholders' equity (ex. causing an increase in accumulated losses)	No serious impact	No serious impact																				
Use of funds from private placement and progress of proposed plans	Not applicable	Not applicable																				
Effectiveness of private placement	Not applicable	Not applicable																				

【Note 1】 The board of directors has decided that this private placement is cancelled on Mar 21, 2019. This decision will be reported to the 2019 shareholders' meeting.

【Note 2】 This private placement has been approved by the board of directors on Mar 21, 2019 and will be reported to the 2019 shareholders' meeting for approval.

## 8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years: None.

## 8.4 Other Necessary Statements: None.

**IX. 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 latest year and as of the date the annual report: None.**

**Phison Electronics Corp.**

**Chairman : KS Pua**