



Phison Electronics Corporation

2020 ANNUAL REPORT

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

Printed on April 27, 2021



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Zhunan Plant 2 Address: No.1-1, Qunyi Rd., Jhunan Township, Miaoli County 350, Taiwan (R.O.C.)

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● **Name, Address, E-mail Address, and Telephone Number of the Stock Transfer Agency**

Name: Stock Affairs Department, Horizon Securities Corp.

Address: 3F, No. 236, Section 4, Xinyi Road, Da'an District, Taipei City

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● **Name of the CPA who Audited the Financial Statements for the Most Recent Year, and the Name, Address and Telephone Number of the Accounting Firm**

Name of CPA: Xin Wei Dai, Li Wen Kuo

CPA Firm: Deloitte Touche Tohmatsu Limited

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Website: www.deloitte.com.tw

Telephone: (02)2725-9988

● **Name of Offshore Stock Exchange and Method for Accessing Information on Offshore Securities:**
None.

● **Website: www.phison.com**

Phison Electronics Corporation

2020 Annual Report

Table of Contents

Chapter 1 Letter to Shareholders	- 1 -
Chapter 2 Company Profile.....	- 5 -
2.1 Date of Incorporation	- 5 -
2.2 Company History	- 5 -
Chapter 3 Corporate Governance Report.....	- 6 -
3.1 Organization.....	- 6 -
3.2 Profile of Directors, Supervisors, and Management Team	- 8 -
3.3 Remuneration of Directors, Supervisors, President, and Vice Presidents.....	- 20 -
3.4 Implementation of Corporate Governance.....	- 29 -
3.5 Information Regarding the Company's Audit Fee and Independence.....	- 88 -
3.6 Replacement of CPA.....	- 89 -
3.7 The Company's chairman, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm.....	- 89 -
3.8 Stock Transfer and Pledge of Directors, Supervisors, Management Team and Major Shareholders Who Own 10% of the Stock in the Most Recent Year and as of the Publication Date of the Annual Report.....	- 89 -
3.9 Relationship among the Top Ten Shareholders	- 91 -
3.10 Consolidated Number of Shares Owned by Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by this Company.....	- 92 -
Chapter 4 Capital Overview.....	- 94 -
4.1 Capital and Shares.....	- 94 -
4.2 Status of Corporate Bonds	- 102 -
4.3 Status of Preferred Stocks	- 102 -
4.4 Status of Global Depository Receipts	- 102 -
4.5 Status of Employee Stock Option Plan	- 103 -
4.6 Issuance of New Restricted Employee Shares	- 106 -
4.7 Status of Issuance of New Shares in Connection with Mergers and Acquisitions.....	- 106 -
4.8 Finance Plans and Implementation	- 106 -
Chapter 5 Operation Overview	- 107 -
5.1 Business Activities.....	- 107 -
5.2 Market and Sales Overview	- 118 -
5.3 Human Resources in the Previous Two Years Before the Publication of the Annual Report	- 127 -
5.4 Environmental Protection Expenditure	- 127 -
5.5 Labor Relations	- 128 -
5.6 Important Contracts.....	- 131 -

Chapter 6 Financial Information.....	- 134 -
6.1 Five-Year Financial Summary.....	- 134 -
6.2 Five-Year Financial Analysis	- 137 -
6.3 Audit Committee's Report for 2020 Financial Statement.....	- 140 -
6.4 2020 Financial Statements (Including CPA Audit Report, Two-year Comparative Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Chart, and Notes or Attachments).....	- 141 -
6.5 The Audited Nonconsolidated Financial Statement for the Year of 2020.....	- 141 -
6.6 Financial Impact on the Company where the Company and its Affiliated Companies Have Incurred any Financial or Cash Flow Difficulties in the Most Recent Year and as of the Publication Date of the Annual Report	- 141 -
 Chapter 7 Financial Status and Operating Results Review and Risk Matters.....	 - 142 -
7.1 Financial Status Analysis.....	- 142 -
7.2 Operating Results Analysis	- 143 -
7.3 Analysis of Cash Flow.....	- 144 -
7.4 2020 Major Capital Expenditures and Impact on Financial and Business	- 145 -
7.5 2020 Investment Policy, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for 2021	- 146 -
7.6 Risk Management and Analysis	- 147 -
7.7 Other Major Events	- 153 -
 Chapter 8 Special Disclosure.....	 - 154 -
8.1 Summary of Affiliated Companies.....	- 154 -
8.2 Private Placement of Securities in the Most Recent Year and as of the Publication Date of the Annual Report	- 161 -
8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Year and as of the Publication Date of the Annual Report.....	- 162 -
8.4 Other Necessary Statements	- 162 -
 Chapter 9 Material matters specified by Article 36.3.2 of the Securities and Exchange Act that has a material impact on interests of shareholders or price of securities over the most recent year and as of the publication date of the annual report.....	 - 163 -

Chapter 1

Letter to Shareholders



Chapter 1. Letter to Shareholders

Dear Shareholders,

In 2020, under the impact of COVID-19 and the difficulties of national lockdown policies in various countries around the world, coupled with the problem of lack of materials and parts in various technology industries, Phison continues to develop new products to meet market needs through its technological leadership, so that Phison can still steadily growth in 2020. Thanks to the unremitting efforts of all Phison people, the combined total revenue for 2020 is approximately NT\$48.5 billion, the combined after-tax surplus is approximately NT\$8.7 billion, and the after-tax EPS is NT\$44.14.

In 2020, the company's overall shipments of SSD products and embedded memory related controllers and finished products accounted for 67% of the company's overall revenue, an increase of approximately 25% from the previous year. In addition, Phison is actively developing UFS controllers to become the best choice for next-generation high-performance embedded storage devices. The R&D team has also continued to invest in key IP development and process miniaturization, providing a newer and more complete product lineup, and moving towards the next major industry milestone.

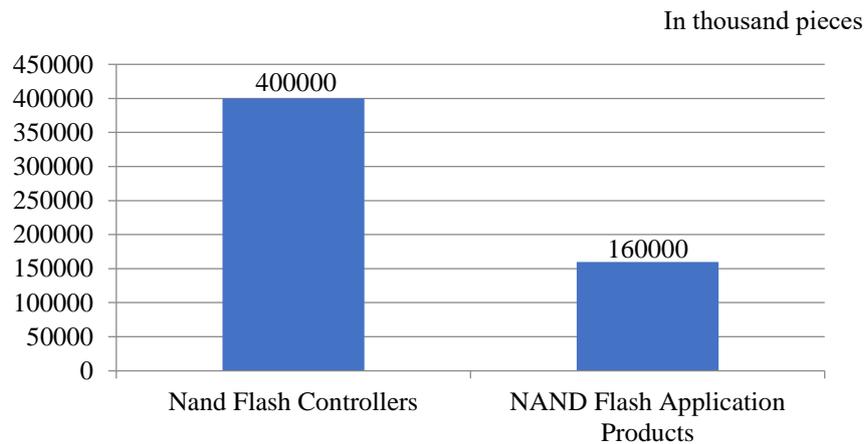
With the gradual realization of global 5G infrastructure and product applications, high-speed access to large amounts of data in the cloud, big data, AI and the Internet of Things and other technology applications have become more prosperous. Coupled with the increasing demand for ultra-high-speed data access due to the upgrade of various gaming software and game console specifications, it is expected that the penetration rate of ultra-high-speed solid-state drives (SSD) will continue to increase and maintain rapid growth. The company has launched different NAND Flash controllers for different application markets, including controllers that comply with PCIe Gen 3x4 NVMe specifications. In addition to leading the industry to launch World's first PCIe Gen4x4 NVMe SSD controllers, Phison has also further developed the world's fastest and only Gen4 SSD controllers with a read and write transmission speed of more than 7GB/s, adding new firepower to the company's active attack on the mainstream application market; in the high-end application/enterprise-level SSD application market, the company's customized enterprise-level SSD solution FX series and the world's highest-capacity enterprise-level QLC SSD storage solution have gradually been recognized by the market; in addition, Phison has set up a research and development center in Colorado, USA, to serve Tier-1 enterprise server vendors nearby. In terms of embedded applications, the company, as one of the few industry leaders in the world that provides eMMC and UFS in its entirety, is committed to lower power consumption and lower heat generation technology, and continues to promote BGA SSD to PCIe NVMe specifications to provide embedded applications the best storage choice, and push mobile storage devices into a new generation of higher speed and more energy-saving. The company takes the lead in launching new controllers that support UFS3.1, especially with Phison's own technology, including StrongECC™, advance LDPC, CoProcessor™ and RAID architecture. It not

only provides low power consumption, but also demonstrates excellent error correction capabilities and SSD-like performance. In terms of memory cards, the company released the latest SD & microSD card controller that is compatible with SD7.0 specifications. It has the absolute advantage of high-speed random access and provides up to 1TB data storage capacity. It is the industry's highest specification and is aimed at the high storage capacity application market. In terms of USB series products, Phison launched the latest portable SSD to achieve the highest performance external SSD. In addition, Phison's product lines also support 3D QLC NAND Flash at a more competitive price, which can more fully meet market needs.

The following products have been successfully developed and launched in 2020, including:

- (1) Develop the lower power consumption MIPI Gear 4 PHY as the host interface of UFS NAND storage controller.
- (2) Develop the world's only PCIe Gen 4 SSD controller PS5018-E18 with a data read/write transfer speed exceeding 7GB/s.
- (3) Develop a new generation of LDPC+DSP error correction module to support 3D NAND more effectively.
- (4) Develop USB3.2 flash drives that support high-speed random writing.
- (5) Develop the third-generation flash memory management core circuit module to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption.
- (6) Develop SD/microSD cards with high random read and write performance, which can expand the built-in flash memory capacity on mobile platforms with advanced operating systems.
- (7) Develop SD memory cards that support SD Express SD7.0 specifications, and support the high-resolution audio-visual market.
- (8) Develop controllers and solutions that support 3D QLC NAND and next-generation 3D PLC NAND.
- (9) Develop low-power RAID error correction modules that support mobile devices.
- (10) Develop high-performance SSDs that reduce overall power consumption by combining Host-side resources to meet the goal of energy saving and carbon reduction.
- (11) Continue to develop SIP flash memory modules, including support for the NM card formulated by the ITMA Association, to expand the market.
- (12) Develop design/verification methods and circuit function modules that meet automotive specifications to support various automotive flash memory modules, including product lines such as SD/microSD, eMMC, UFS, and BGA SSD.
- (13) Develop embedded SSDs with high integration, low latency, and low write loss, including low-power BGA SSDs, to meet the storage needs of various mobile devices.

In 2021, the Company plans to supplement and expand R&D personnel to 2,000 people approximately. The estimated shipment of major products in 2021 years is as follows:



According to the analysis of market demand trend, industry competition strategy, Phison plan to continuously upgrade current product line and develop new products as follows in 2021:

- (1) Develop a high-capacity USB3.2 Gen2x2 flash drive that supports high-speed random writing to meet the huge data transmission needs of content creators and other high-resolution audiovisual markets.
- (2) Develop SD/microSD memory cards that support high-speed random writing and comply with the SD Express specification (SD 8.0) to meet the needs of high-end mobile devices and high-resolution audio and video recording.
- (3) Develop the latest generation of UFS controller, support 3D NAND flash memory, and optimize it for the automotive storage market to meet the needs of high-speed computing such as self-driving cars.
- (4) Develop high-speed SSDs that support the latest PCIe NVMe specifications, including a new generation of PCIe Gen4 and PCIe Gen5 SSD controllers, and continue to maintain high-end technology leadership.
- (5) Develop the next-generation PCIe PHY for more detailed manufacturing processes, and continue to strengthen the field of IP licensing businesses.
- (6) Develop high-end enterprise-level SSD, support higher capacity, higher speed and fault tolerance mechanism, and cooperate with strategic partners to co-develop the new generation of enterprise SSD controllers and solutions to meet the needs of the enterprise-level storage market.
- (7) Develop a new generation of error correction modules to support high-level 3D TLC/QLC and next-generation PLC flash memory.
- (8) Continue to develop smaller, higher-capacity, and more power-saving SIP SSDs, including eMMC, UFS, and BGA SSDs that meet the automotive storage requirements to meet the high-speed storage needs of future mobile devices.
- (9) Develop SSDs that meet automotive specifications and continue to pass various automotive regulatory certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc.
- (10) Continue to develop SIP SSD suitable for various special embedded applications.

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

Respectfully yours

Khein Seng Pua, Chairman

Chee Kong Aw Yong, President

Pao Feng Chen, Accounting Director

Chapter 2

Company Profile



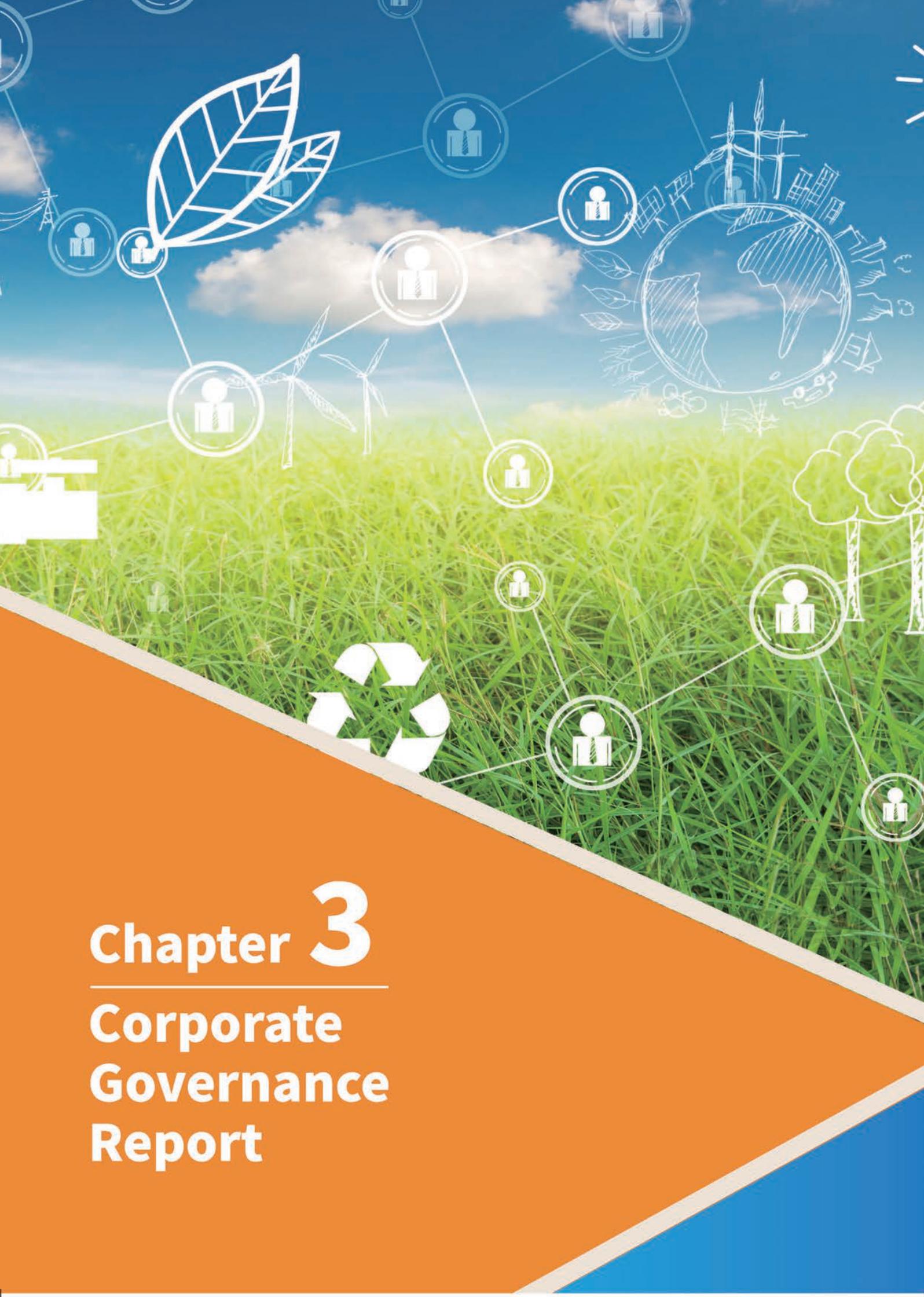
Chapter 2. Company Profile

2.1 Date of Incorporation: Nov. 8th, 2000

TPEX-listed Date: Dec. 6th, 2004

2.2 Company History

Year	Important event
Jan, 2016	• Phison Electronics Corporation announced the first controller chip PS5007-E7 which supports PCIe Gen3 x 4 NVMe SSD
July, 2016	• Top 500 of export and import manufacturers with excellent performance in 2015
Sep, 2016	• Phison Electronics Corporation announced the first solution in the industry for the SD 5.0 specification. This solution led the SD card application into an era of high-speed video recording of Video Speed Class
Sep, 2016	• Phison Electronics Corporation announced the microSD card of "Max IOPS" product line
Dec, 2016	• NT\$3,000,000 of treasury shares were annulled. The paid-in capital was decreased to NT\$ 1,970,739,930
Feb, 2017	• Phison SSD controller passed the BiCS3 testing verification which will help the Company and Toshiba to enhance the 3DNAND application
Apr, 2017	• The SD 5.1 A1 controller PS8131 introducing BiCS3 technical
July, 2017	• Top 500 of large enterprises in Taiwan in 2017- Ranking the first of computer peripheral equipment industry/ranking 13th of manufacturing operation performance
Oct, 2017	• Top 500 of export and import manufacturers with excellent performance in 2016
Apr, 2018	• Launched the world's first 512GB microSD card
June, 2018	• Announcing flagship PCIe Gen3x4 NVMe SSD controller PS5012-E12, targeting high-end NAND storage applications such as servers, gaming, and edge computing
July, 2018	• Top 5000 of large enterprises in Taiwan in 2018- Ranking the first of computer peripheral equipment industry/ranking 13th of manufacturing operation performance
Sep, 2018	• Top 500 of export and import manufacturers with excellent performance in 2017
Oct, 2018	• Phison Electronics Corporation won the "15th Taiwan Information Storage Technical Award-Industry Contribution Award" of 2018
Jan, 2019	• Launching the world's first PCIe Gen4x4 NVMe SSD controller PS5106-E16, consistently serving as the leader in the industry
July, 2019	• Top 5000 of large enterprises in Taiwan in 2019- Ranking the first in computer peripheral equipment industry/ranking 13th in manufacturing operation performance
Sep, 2019	• Announcing the world's first controller chip PS5019-E19T of PCIe Gen4x4 DRAMLess NVMe SSD
Oct, 2019	• Top 500 of export and import manufacturers with excellent performance in 2018
Jan, 2020	• Releasing the most complete 3D QLC NAND storage solution at the CES exhibition in the US
Oct, 2020	• Announcing the world's highest capacity S12DC enterprise QLC SSD storage solution
Nov, 2020	• With the coming of AI era, Phison launched FX series of customized enterprise SSD solutions
Nov, 2020	• Launched the world's fastest PCIe Gen4 SSD controller chip PS5018-E18
Jan, 2021	• Announced a full range of storage solutions for gaming and content creators at CES 2021, including the world's first USB3.2 controller U17/U18, the world's highest CP, the next generation PCIe Gen4x4 DRAM-Less SSD controller PS5021-E21T, which offers the highest CP value for both performance and cost, the world's only PCIe Gen4x4 SSD controller PS5018-E18 that achieves 7000MB/s read/write performance, and the world's first Phison E13T BGA SSD solution to integrate PCIe NVMe performance into a small (11.5mm x 13mm) BGA SSD

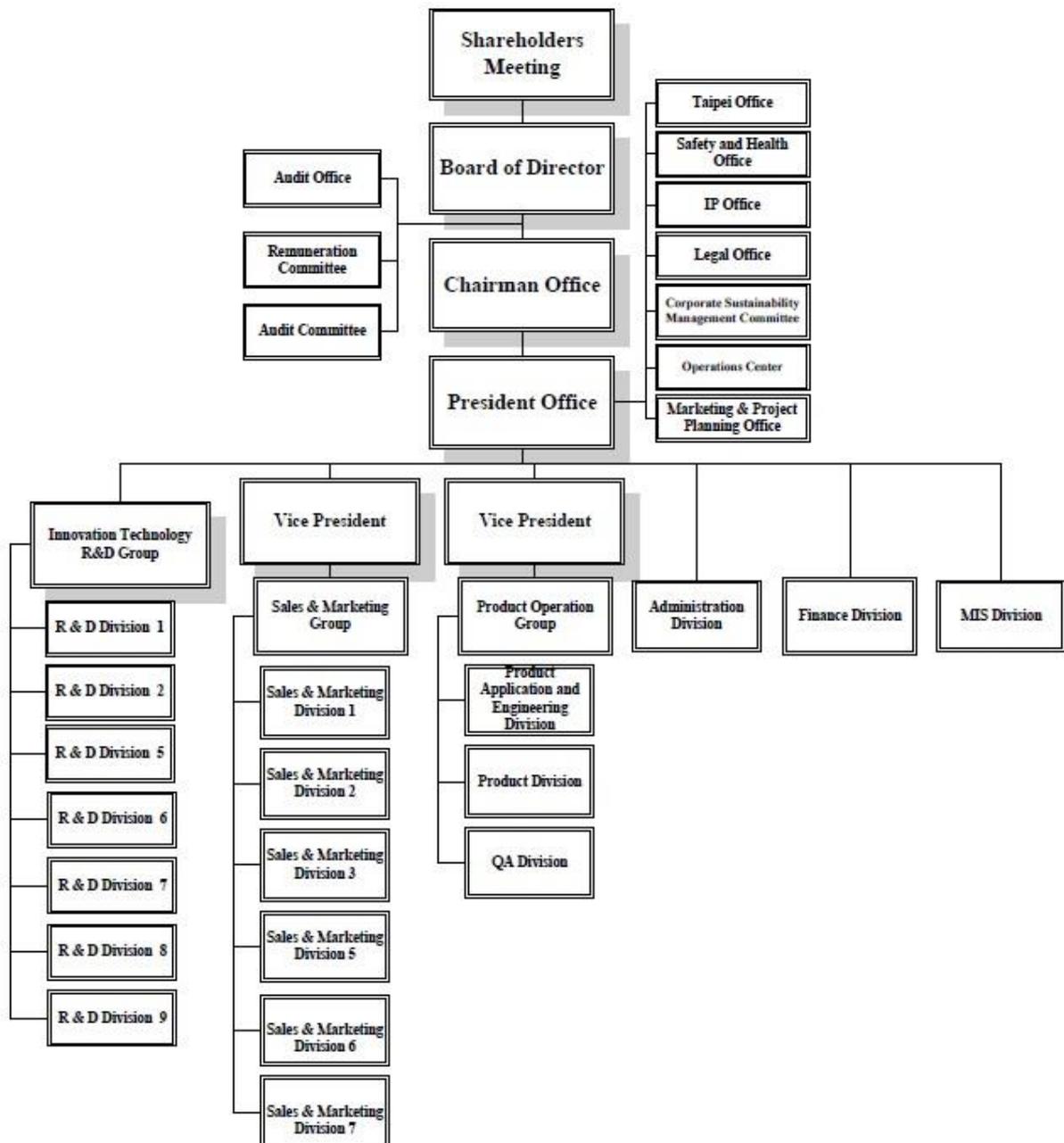


Chapter 3
**Corporate
Governance
Report**

Chapter 3. Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



3.1.2 Business Activities of Main Divisions

Department	Responsibilities
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	Handling 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.
Corporate Sustainability Management Committee	In charge of identifying important internal and external stakeholders and the ESG impact on society as a whole, compiling stakeholder opinions and expectations, plans sustainable development projects and setting performance indicators, and regularly tracking the results based on the Company's business model; and annually publishing a sustainability report to enhance the transparency of information disclosure.
Operation Center	In charge of establishing product pricing strategies, coordinating product production and key suppliers, and managing the utilization of 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 back-end design 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.
Product Operation Group	In charge of establishing and implementing the manufacturing strategies and operation plans; monitoring, managing and analyzing the yield and quality of products; in charge of procurements; in charge of quality inspection and analysis of import and export goods, manufacturing processes, outsourcing processes and other physical and process systems.
Administration Division	Supervision and Management of the human resource affairs and general affairs; in charge of the plant affairs, plant security, employee welfare affairs, etc.
Information Office	In charge of the evaluation, development and maintenance of the company's information systems; in charge of the evaluation, management and maintenance of network architecture, various server systems and the development and management of information security mechanisms.
Finance Division	In charge of the operation, administration and management of the accounting, finances, cost, investment and shareholding affairs.

3.2 Profile of Directors, Supervisors and Management Team

3.2.1 Profile of Directors and supervisors

3.2.1.1. Profile of Directors and supervisors

Date: March 30, 2021

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 the second degree of kinship			Remarks
							Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)			Title	Name	Relation	
							Chairman	Malaysia	Khein Seng Pua	Male	109.06.03	3 years	89.10.24	4,557,972			2.31	4,557,972	2.31	
Director	Malaysia	Chee Kong Aw Yong	Male	109.06.03	3 years	91.02.15	3,409,745	1.73	3,463,745	1.76	36,000	0.02	203,000	0.10	Master of Graduate Institute of Electrical and Computer Engineering, NCTU Founder of Phison Electronics Corp.	[Note 03]	N/A	N/A	N/A	[Note 11]
Director	Taiwan	Tzung Horng Kuang	Male	109.06.03	3 years	97.06.13	1,408,736	0.71	1,413,736	0.72	0	0.00	0	0.00	Master of Business Administration of Greenwich University Kogen Singapore Pte Ltd	[Note 04]	N/A	N/A	N/A	N/A
Director [Note 05]	Taiwan	Chenghe Investment Co., Ltd.	-	109.06.03	3 years	109.06.03	2,172,000	1.10	2,363,000	1.20	0	0.00	0	0.00	N/A	N/A	N/A	N/A	N/A	N/A
	Taiwan	Chih Jen Hsu [Representative of Chenghe Investment Co., Ltd.]	Male	109.06.03	3 years	100.06.15	1,020,301	0.52	1,020,301	0.52	0	0.00	0	0.00	B.S. of Department of Computer Science, Chung Yuan Christian University Assistant Manager of Winbond Electronics Corporation Founder of Phison Electronics Corp.	Vice Technical President of Phison Electronics Corp.	N/A	N/A	N/A	N/A
		Chih Jen Hsu		106.06.13																
Director [Note 06]	Japan	KIOXIA Corporation	-	109.06.03	3 years	106.09.27	19,821,112	10.06	19,821,112	10.06	0	0.00	1,000	0.00	N/A	[Note 06]	N/A	N/A	N/A	N/A
	Japan	Hitoro Nakai	Male	109.06.03	3 years	101.01.16	0	0.00	[Note 06]						Master of Engineering of Tohoku University	[Note 06]	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 the second degree of kinship			Remarks
							Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)			Title	Name	Relation	
									[Representative of KIOXIA Corporation]											
	Japan	Hiroshi Miyauchi [Representative of KIOXIA Corporation]	Male	109.11.13	3 years	109.11.13	0	0.00	0	0.00	0	0.00	0	0.00	Bachelor of Science in Electro-Communications, University of Electro- Communications Part time contract with KIOXIA Corporation	Part time contract with Toshiba Material Co., Ltd., Director of Property Management of Toshiba Co., Ltd.	N/A	N/A	N/A	N/A
Supervisor/ Director [Note 07]	Taiwan	Jiunn Yeong Yang	Male	109.06.03	3 years	100.06.15	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 Founder of Phison Electronics Corp.	N/A	N/A	N/A	N/A	N/A
Independent Director	Taiwan	Chen Wei Wang	Male	109.06.03	3 years	103.06.17	0	0.00	0	0.00	0	0.00	0	0.00	B.S. of Department of Electronics Engineering, National Chiao Tung University CEO, Quanta Computer Inc. President, Quanta Computer Inc.	Independent Director of Simplo Technology Co., Ltd. and Innolux Corporation	N/A	N/A	N/A	N/A
Independent Director [Note 08]	Taiwan	Shu Fen Wang	F	106.06.13	3 years	92.11.12	0	0.00	[Note 08]				Ph.D. in Finance, University of Houston Director of Department of Information and Finance Management	[Note 08]	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 the second degree of kinship			Remarks
							Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)			Title	Name	Relation	
Independent Director	Taiwan	Wen Chiu Chung	F	109.06.03	3 years	109.06.03	0	0.00	0	0.00	0	0.00	0	0.00	M.S. in Accounting, Chung Yuan Christian University Auditor of Grant Thornton Taiwan Accountant of Grant Thornton Taiwan	Director of Xu Yuan Packaging Technology Co., Ltd.	N/A	N/A	N/A	N/A
Independent Director	Taiwan	Yu Lun Huang	F	109.06.03	3 years	109.06.03	0	0.00	0	0.00	0	0.00	0	0.00	Ph.D., Department of Information Engineering, National Chiao Tung University	Associate Professor of Department of Electrical Engineering, National Chiao Tung University; Secretary General of Taiwan Open Course and Education Consortium	N/A	N/A	N/A	N/A
The Company [Note 09]	Taiwan	Huei Ming Wang	Male	106.06.13	3 years	97.06.13	171,750	0.09						[Note 09]	MA in Industrial Management from Chung Hua University Executive Director of Taiwan Certified Public Accountant Association	[Note 09]	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 the second degree of kinship			Remarks
							Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)			Title	Name	Relation	
The Company [Note 10]	Taiwan	Chiun Hsiou Chen	Male	106.06.13	3 years	103.06.17	0	0.00			[Note 10]			MBA of Binghamton University, State University of New York Vice President of Rich Father International Holdings Executive Vice President of Expert Business Management 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	[Note 10]	N/A	N/A	N/A	N/A	N/A

[Note 01] The Company re-elected its directors and established the Audit Committee to replace the Board of Supervisors on June 3, 2020.

[Note 02] CEO of Phison Electronics Corporation; Legal Representative Director and Chairman of Lian Xu Dong Investment Corporation, OSTEK Corporation, Phisontech Electronics Taiwan Corp., Memoryexchange Corporation; Directors Representative of EMTOPS ELECTRONICS CORP.; Director of Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited.

[Note 03] President of Phison Electronics Corporation; Legal Representative Director and Chairman of Super Storage Technology Corporation; Legal Representative Director of Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp.; Director of Global Flash Limited, Core Storage Electronic (Samoa) Limited.

[Note 04] Vice-President of Phison Electronics Corporation; Legal Representative Director and Chairman of P EMTOPS ELECTRONICS CORP.; Legal Representative Director of MicroTops Design Corporation, OSTEK Corporation; Director of Phison Electronics Japan Corp., Power Flash (Samoa) Limited.

[Note 05] Chih Jen Hsu served as director until June 3, 2020 and has been appointed as the Company's legal representative director by Chenghe Investment Co. Ltd. since June 3, 2020.

[Note 06] Director of KIOXIA Semiconductor Taiwan Corporation, KIOXIA Taiwan Corporation, MicroTops Design Corporation, and Solid State System Co., Ltd. On November 13, 2020, Director KIOXIA Corporation reassigned the Legal Representative Director from Hiroto Nakai to Hiroshi Miyauchi.

[Note 07] Jiunn Yeong Yang served as a supervisor until June 3, 2020 and has served as a director of the Company since June 3, 2020.

[Note 08] Shu Fen Wang served as an independent director until June 3, 2020.

[Note 09] Huei Ming Wang served as an supervisor until June 3, 2020.

[Note 10] Chiun Hsiou Chen served as an supervisor until June 3, 2020.

[Note 11] Related information of reasons, rationality, necessity and countermeasures (e.g. methods like increase the number of seats for Independent Directors, and more than half of directors do not assume as employees or managers concurrently) shall be illustrated where Chairman, President or equivalents (Top Manager) are the same person, couples or relatives of first degree of kinship: The Chairman, Khein Seng Pua, and the President, Chee Kong Aw Yong, are not the same person nor spouse or a first-degree relative of each other. On June 3, 2020, the Company re-elected its directors and established nine directors (including three independent directors), which is better than the number of independent directors stipulated in Article 13-1 of the Articles of Incorporation of the Company, with half of the Directors not concurrently serving as employees or Manager of the Company.

3.2.1.2. Major shareholders of the institutional shareholders

March 30, 2021

Name of institutional shareholders	Major shareholders	Shareholding (%)
Kioxia Corporation	Kioxia Holdings Corporation	100

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

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

[Note 1] The above information is taken from the website of Kioxia Holdings Corporation (kioxia-holdings.com/en-jp/about/company.html) and represents the percentage of voting shares of the Company as of August 27, 2020.

3.2.1.4. Professional Qualifications and Independence Analysis of Directors and Supervisors

Date: March 30, 2021

Name	Criteria	Fulfilling One of The Following Professional Qualification Requirements, Together With At Least Five Years of 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 approved a national examination and been awarded a certificate in a profession necessary for the business of the Company	Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Khein Seng Pua			✓				✓	✓	✓		✓	✓	✓	✓	✓	N/A	
Chee Kong Aw Yong			✓			✓	✓	✓	✓		✓	✓	✓	✓	✓	N/A	
Tzung Horng Kuang			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	
Chih Jen Hsu			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	
Chenghe Investment Co., Ltd.			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A	
Representative of Chenghe Investment Co., Ltd. Chih Jen Hsu			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A	
KIOXIA Corporation			✓		✓		✓	✓		✓	✓	✓	✓	✓		N/A	
Representative of KIOXIA Corporation Hitoro Nakai			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A	
Representative of KIOXIA Corporation Hiroshi Miyauchi			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A	
Chen Wei Wang			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Shu Fen Wang	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Huei Ming Wang		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Jiunn Yeong Yang			✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	N/A	
Chiun Hsiou Chen			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	
Wen Chiu Chung		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	
Yu Lun Huang	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	

[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.

- (1) Not employed by the Company or any of its related companies.
- (2) 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).

- (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 ranking in the top 10 in holdings.
- (4) Not a spouse, or a relative within the second degree of kinship or lineal relative of third degree of kinship of manager or (2), (3) personnel listed in (1).
- (5) Not serving as a Director, Supervisor or Employee of Judicial Person Shareholder holding a 5% of total issued shares of the Company, holding the top five shares or appointing representatives to assume Director or Supervisor according to Subparagraph 1 and 2, Article 27, Company Act (this does not apply in cases where the person is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (6) Not serving as a Director, Supervisor or Employee of the other companies that their board seats of the Company or more than half of shares that owns voting rights controlled by the same person (this does not apply in cases where the person is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (7) Not serving as a Director, Supervisor or Employee of other companies or agencies that are the same person, or spouse of a Director, GM or Person holding equivalent position of the Company (this does not apply in cases where the person is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (8) Not a Director, Supervisor, Manager or shareholder holding over 5% shares of special company or agency that has financial or business interactions with the Company (this does not apply in cases where the person that special company or agency holding more than 20%, less than 50% of the total issued shares, and is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (9) Not a Professional, Business Owner, Partner, Director, Supervisor, Manager and Spouse of Sole proprietorship, partnership, company or institution in terms of relevant service including commercial, legal, financial, accounting affair providing audit to the Company or affiliated enterprises or whose accumulative amount being no more than NTD 500,000 in recent two years. However, members of the special committee on remuneration, public acquisition review, or merger and acquisition who perform their functions and powers in accordance with the provisions of the Securities Trading Act or Business Mergers and Acquisitions Act and other relevant regulations shall not be subject to this provision.
- (10) Not having a martial relationship, or a relative with the second degree of kinship to other directors.
- (11) Not been a person of any conditions defined in Article 30 of the Company Act.
- (12) Not a governmental, juridical person or its representative elected as defined in Article 27 of the Company Act.

3.2.2 Profile of Directors, Supervisors, and Management Team

Date: March 30, 2021

Title	Nationality	Name	Gender	Date elected	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	Shareholding (%)	Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation	
CEO	Malaysia	Khein Seng Pua	Male	97.10.01	4,557,972	2.31	806,262	0.41	4,534,144	2.30	Master of Graduate Institute of Electrical and Computer Engineering, NCTU Founder of Phison Electronics Corp.	[Note 01]	N/A	N/A	N/A	[Note 15]
President	Malaysia	Chee Kong Aw Yong	Male	97.10.01	3,463,745	1.76	36,000	0.02	203,000	0.10	Master of Graduate Institute of Electrical and Computer Engineering, NCTU Founder of Phison Electronics Corp.	[Note 02]	N/A	N/A	N/A	
Vice President	Taiwan	Tzung Horng Kuang	Male	91.06.18	1,413,736	0.72	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	N/A
Vice President	Taiwan	Yeou Long Sheng	Male	106.09.20	[Note 04]						Vice President of Xintec Inc. Department Manager of Taiwan Semiconductor Manufacturing Co., Ltd. EMBA of Business, National Taiwan University. Master of University of Houston	[Note 04]				
Vice Technical President	Taiwan	Chih Jen Hsu	Male	101.08.01	1,020,301	0.52	0	0.00	0	0.00	B.S. of Department of Information Engineering, Chung Yuan Christian University Assistant Manager of Winbond Electronics Corporation Founder of Phison Electronics Corp.	N/A	N/A	N/A	N/A	N/A
Vice President	Malaysia	Wee Kuan Gan	Male	101.02.24	94,052	0.05	5,451	0.00	0	0.00	B.S. of Department of Electrical and Computer Engineering, NCTU	[Note 05]	N/A	N/A	N/A	N/A

Title	Nationality	Name	Gender	Date elected	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	Shareholding (%)	Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation	
Director of Administration Division	Taiwan	Liu Hsiu Chin	F	98.10.31	18,427	0.01	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.	N/A	N/A	N/A	N/A	N/A
Director of Sales & Marketing Division 1	Taiwan	Shu Hui Tsai	F	101.02.24	24,159	0.01	6,115	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 06]	N/A	N/A	N/A	N/A
Director of Sales & Marketing Division 2	Taiwan	Huei Chen Tsay	F	101.02.24	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 07]	N/A	N/A	N/A	N/A
Director of Sales & Marketing Division 3	Taiwan	Li Fu Huang	Male	108.11.11	0	0.00	0	0.00	0	0.00	Master of Arts and Sciences, Columbia University Etron Technology, Inc. Sumitomo Shoji Chemicals Co., Ltd.	N/A	N/A	N/A	N/A	N/A
Director of Finance Division	Taiwan	Shu Hua Chiu	F	101.12.01	0	0.00	0	0.00	0	0.00	B.S. of Department of Economics, National Central University Vice Assistant Officer of Deloitte & Touch CPAs	[Note 08]	N/A	N/A	N/A	N/A

Title	Nationality	Name	Gender	Date elected	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	Shareholding (%)	Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation	
Director of R&D Division 1	Taiwan	Kuo Yi Cheng	Male	2012.08.01	19,134	0.01	1,558	0.00	0	0.00	Master of Graduate Institute of Electric Engineering, National Taiwan University of Science and Technology	[Note 09]	N/A	N/A	N/A	N/A
Director of R&D Division 2	Taiwan	Chung Hsun Ma	Male	2012.08.01	0	0.00	0	0.00	0	0.00	Master of Graduate Institute of Physics, National Central University Vice President of King Byte Information Corp.	[Note 10]	N/A	N/A	N/A	N/A
Director of R&D Division 5	Taiwan	Jui Chieh Lin	Male	2016.05.01	[Note 11]						Master of Graduate Institute of Electrical and Computer Engineering, NCTU Vice Manager of Faraday Technology Inc.	[Note 11]				
Director of R&D Division 6	Taiwan	Ching Wen Chan	Male	2019.01.25	0	0.00	0	0.00	0	0.00	Doctor of Graduate Institute of Electrical and Computer Engineering, NCKU Project Manager of CED Technology Inc	N/A	N/A	N/A	N/A	N/A
Director of R&D Division 8	Malaysia	Chieh Chuan Chin	Male	2018.10.24	[Note 12]						Master of Graduate Institute of Electrical and Computer Engineering, NCTU	[Note 12]				
Finance Officer and Accounting Officer	Taiwan	Pao Feng Chen	F	2020.03.27	0	0.00	0	0.00	0	0.00	University of Wales Master of E-commerce Management Department Senior manager of PHISON Electronics Corp.	[Note 13]	N/A	N/A	N/A	N/A

Title	Nationality	Name	Gender	Date elected	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	Shareholding (%)	Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation	
Chief Operating Officer and Senior Special Assistant	Taiwan	Zhi Chyang Yu	Male	2021.02.06	0	0.00	0	0.00	0	0.00	M.S. of Risk Management, National Chengchi University	[Note 14]	N/A	N/A	N/A	N/A

[Note 01] Legal representative director and Chairman of Lian Xu Dong Investment Corporation, OSTEK Corporation, Phisontech Electronics Taiwan Corp., Memoryexchange Corporation; Legal Representative Director of EMTOPS ELECTRONICS CORP., Director of Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited.

[Note 02] Legal Representative Director and Chairman of Super Storage Technology Corporation; Legal Representative Director of Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp.; Director of Global Flash Limited, Core Storage Electronic (Samoa) Limited.

[Note 03] Legal Representative Director and Chairman of EMTOPS ELECTRONICS CORP.; Legal representative director of MicroTops Design Corporation, OSTEK Corporation; Director of Phison Electronics Japan Corp., Power Flash (Samoa) Limited.

[Note 04] Vice president Yeou Long Sheng has resigned on December 31, 2020.

[Note 05] Legal Representative Director of OSTEK Corporation, Super Storage Technology Corporation; Legal Representative Supervisor of Phisontech Electronics Taiwan Corp.

[Note 06] Director of Power Flash (HK) Limited.

[Note 07] Director of Power Flash (HK) Limited.

[Note 08] Legal Representative Director of Phisontech Electronics Taiwan Corp.

[Note 09] Legal Representative of Hefei Ruhan Electronic Technology Limited.

[Note 10] Supervisor of MicroTops Design Corporation; Legal representative director of EMTOPS ELECTRONICS CORP..

[Note 11] Director of R&D Division 5 Jui Chieh Lin resigned on December 4, 2020.

[Note 12] Director of R&D Division 8 Chieh Chuan Chin resigned on July 31, 2020.

[Note 13] Legal Representative Supervisor of Memoryexchange Corporation.

[Note 14] Legal Representative Supervisor of EMTOPS ELECTRONICS CORP.; Legal Representative Director of Memoryexchange Corporation.

[Note 15] Related information of reasons, rationality, necessity and countermeasures (e.g. methods like increase the number of seats for Independent Directors, and more than half of directors do not assume as employees or managers concurrently) shall be illustrated where Chairman, President or equivalents (Top Manager) are the same person, couples or relatives of first degree of kinship: The Chairman, Khein Seng Pua, and the President, Chee Kong Aw Yong, are not the same person nor spouse or a first-degree relative of each other. On June 3, 2020, the Company re-elected its directors and established nine directors (including three independent directors), which is better than the number of independent directors stipulated in Article 13-1 of the Articles of Incorporation of the Company, with half of the Directors not concurrently serving as employees or Manager of the Company.

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

3.3.1 Remuneration of Directors and Independent Directors

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 Remuneration (A+B+C+D+E+F+G) to Net Income (%) [Note 02]		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary		
		Base Compensation (A)		Severance Pay (B)		Directors Compensation (C) [Note 01]		Allowances (D)				Salary, Bonuses, and Allowances (E) [Note 12]		Severance Pay (F) [Note 03]		Employee Compensation (G) [Note 01]						
		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	The Company		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements			
														Cash	Stock	Cash	Stock					
Chairman	Khein Seng Pua																					
Director	Chee Kong Aw Yong																					
Director	Tzung Horng Kuang																					
Director [Note 05]	Chih Jen Hsu																					
Director [Note 06]	Chenghe Investment Co., Ltd. Chenghe Investment Co., Ltd. Representative: Chih Jen Hsu	0	0	0	0	26,824	26,824	0	0	0.31	0.31	159,770	159,770	344	344	90,000	0	90,000	0	3.18	3.18	N/A
Director [Note 07]	Jiunn Yeong Yang																					
Director [Note 08]	KIOXIA Corporation KIOXIA Corporation Representative: Hiroto Nakai KIOXIA Corporation Representative: Hiroshi Miyauchi																					
Independent Director [Note 09]	Shu Fen Wang																					
Independent Director	Chen Wei Wang																					
Independent Director [Note 10]	Wen Chiu Chung	0	0	0	0	12,459	12,459	0	0	0.14	0.14	0	0	0	0	0	0	0	0	0.14	0.14	N/A
Independent Director [Note 11]	Yu Lun Huang																					

- Please state the payment policy, system, standard and structure of remuneration of Independent Directors, and relevance of remuneration amount based on factors like duties, risks, time: the remuneration of directors and supervisors of the Company is recognized as according to Article 19 of the Articles of Association of the Company and distributed upon resolutions made at the Remuneration Committee and Board of Directors referring to the usual payment of the same trade and time invested and duties undertaken of individuals.
- 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 01] According to the resolutions made at the Board of Directors on March 11, 2021, the Company will remunerate the employees (NT\$1,000,000 thousand) and the Directors/Supervisors (NT\$45,000 thousand). Up to the publication date of the annual report, the employee list of the remuneration and the amount of remuneration for Directors/Supervisors has not been decided. The table above shows the estimated amount of proposed distribution.

[Note 02] Profit after tax: According to the individual financial statements, the profit after tax in 2020 is NT\$8,699,044 thousand.

[Note 03] This is the severance pay required by the relevant laws.

[Note 04] The Company's Annual General Meeting of Shareholders re-elected its directors and established the Audit Committee to replace the Board of Supervisors on June 3, 2020.

[Note 05] Chih Jen Hsu served as director until June 3, 2020.

[Note 06] Legal Representative Director of Chenghe Investment Co., Ltd. Chih Jen Hsu took office since June 3, 2020.

[Note 07] Director Jiunn Yeong Yang took office since June 3, 2020.

[Note 08] On November 13, 2020, Director KIOXIA Corporation reassigned the Legal Representative Director from Hiroto Nakai to Hiroshi Miyauchi.

[Note 09] Shu Fen Wang served as an independent director until June 3, 2020.

[Note 10] Wen Chiu Chung took office since June 3, 2020.

[Note 11] Independent Director Yu Lun Huang took office since June 3, 2020.

[Note 12] Refer to the salary, salary increment, severance pay, bonuses, incentive payments, travel disbursement, special disbursement, allowances, dormitory, car and other in-kind expenses received by the directors and employees, plus the employee stock option premiums recognized in accordance with the IFRS2 share base.

Table of Range of Remuneration

Range of Remuneration	Name of Directors			
	Total of Remuneration (A+B+C+D)		Total of Remuneration (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 NTS1,000,000	0	0	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	Chih Jen Hsu, Shu Fen Wang		Shu Fen Wang	
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	Jiunn Yeong Yang, Chenghe Investment Co., Ltd., Wen Chiu Chung, Yu Lun Huang		Jiunn Yeong Yang, Chenghe Investment Co., Ltd., Wen Chiu Chung, Yu Lun Huang	
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang, Chen Wei Wang, KIOXIA Corporation		Chen Wei Wang, KIOXIA Corporation	
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	0	0	Chih Jen Hsu	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0	Tzung Horng Kuang	
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0	0	0	0
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	0	0	Khein Seng Pua, Chee Kong Aw Yong	
Over NTS100,000,000	0	0	0	0
Total	11	1	11	11

3.3.2 Remuneration of Supervisors

Unit: NT\$ thousands

Title	Name	Remuneration						Ratio of Total Remuneration (A+B+C) to Net Income (%) [Note 2]		Compensation Paid to Directors 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	Jiunn Yeong Yang									
Supervisor	Huei Ming Wang	0	0	5,717	5,717	0	0	0.07	0.07	N/A
Supervisor	Chiun Hsiou Chen									

[Note 1] According to the resolutions made at the Board of Directors on March 11, 2021, the Company will remunerate the directors/supervisors (NT\$45,000 thousand). Up to the publication date of the annual report, the amount of remuneration for individual supervisors has not been decided.

The table above shows the estimated amount of proposed distribution.

[Note 2] Profit after tax: according to the individual financial statements, the profit after tax in 2020 is NT\$8,699,044 thousand.

[Note 3] The Company established an audit committee in June 2020 in accordance with the Securities and Exchange Act and the Company's Articles of Incorporation, and no longer has the board of supervisor in accordance with the law.

Table of Range of Remuneration

Range of Remuneration	Name of Directors	
	Total of (A+B+C)	
	The Company	Companies in the consolidated financial statements (D)
Under NT\$1,000,000	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	Jiunn Yeong Yang, Huei Ming Wang and Chiun Hsiou Chen	Jiunn Yeong Yang, Huei Ming Wang and Chiun Hsiou Chen
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	0	0
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	0	0
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0	0
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	0	0
Over NT\$100,000,000	0	0
Total	3	3

3.3.3 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 Directors 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	Khein Seng Pua	20,166	20,166	478	478	147,206	147,206	95,000	0	95,000	0	3.02	3.02	N/A
President	Chee Kong Aw Yong													
Vice President	Tzung Horng Kuang													
Vice Technical President	Chih Jen Hsu													
Vice President	Yeou Long Sheng [Note 5]													
Vice President	Wee Kuan Gan [Note 6]													

[Note 1] According to the resolutions made at the Board of Directors on March 11, 2021, the Company will remunerate the employees total amount of NT\$1,000,000 thousand. Up to the date of publication of the annual report, the employee list of the remuneration has not been decided. The table above shows the estimated amount of proposed distribution.

[Note 2] Profit after tax: according to the individual financial statements, the profit after tax in 2020 is NT\$8,699,044 thousand.

[Note 3] This is the severance pay required by the relevant laws.

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

[Note 5] Vice President Yeou Long Sheng resigned on December 31, 2020.

[Note 6] Vice President Wee Kuan Gan took office on July 1, 2020.

Table of Range of Remuneration

Range of Remuneration	Name of President and Vice Presidents	
	Total of (A+B+C)	
	The Company	Companies in the consolidated financial statements (D)
Under NT\$1,000,000	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	0	0
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	Yeou Long Sheng	
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	Tzung Horng Kuang, Chih Jen Hsu, Wee Kuan Gan	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0	0
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	Khein Seng Pua, Chee Kong Aw Yong	
Over NT\$100,000,000	0	0
Total	6	6

3.3.4 Remuneration of Management Team

Date: March 30, 2021 Unit: NT\$ thousand

	Title	Name	Stock	Cash [Note 1]	Total	Ratio of Total Amount to Net Income (%) [Note 2]
Managerial officers	CEO	Khein Seng Pua	0	120,000	120,000	1.38
	President	Chee Kong Aw Yong				
	Vice President	Tzung Horng Kuang				
	Vice President	Wee Kuan Gan				
	Vice Technical President	Chih Jen Hsu				
	Director of Administration Division	Liu Hsiu Chin				
	Director of Sales & Marketing Division 1	Shu Hui Tsai				
	Director of Sales & Marketing Division 2	Huei Chen Tsay				
	Director of Sales & Marketing Division 3	Li Fu Huang				
	Director of R&D Division 1	Kuo Yi Cheng				
	Director of R&D Division 2	Chung Hsun Ma				
	Director of R&D Division 6	Ching Wen Chan				
	Director of Finance Division	Shu Hua Chiu				
	Finance Officer and Accounting Officer	Pao Feng Chen				
	Chief Operating Officer and Senior Special Assistant	Zhi Chyang Yu				

[Note 1] According to the resolutions made at the Board of Directors on March 11, 2021, the Company will remunerate the employees total amount of NT\$1,000,000 thousand.

Up to the publication date of the annual report, the employee list of the remuneration has not been decided. The table above shows the estimated amount of proposed distribution.

[Note 2] Profit after tax: according to the individual financial statements, the profit after tax in 2020 is NT\$8,699,044 thousand.

3.3.5 Ratio of total remuneration for directors, supervisors, president and vice presidents of the Company and all the companies in the consolidated Financial Statements in the recent two fiscal years in net profits of individual financial report after tax shall be illustrated, and remuneration payment policy, standard and combination, establishment procedure of remuneration, relevance between performance and the future risk shall be stated.

3.3.5.1 Analysis of ratio of total remuneration for directors, supervisors, president and vice presidents of the Company and all the companies in the consolidated Financial Statements in the recent two fiscal years in net profits of individual financial report after tax

Unit: %

Title	Ratio of Total Remuneration to Net Income After Tax (%)				Percentage of change of the Company (%)	Percentage of change of all companies in the consolidated statement (%)
	2019		2020			
	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements		
Director	2.79	2.79	3.32	3.32	0.53	0.53
Supervisor	0.23	0.23	0.07	0.07	(0.16)	(0.16)
President and Vice President	2.38	2.38	3.02	3.02	0.64	0.64

Note: The profit after tax of 2019 and 2020 are NT\$4,543,489 thousand and NT\$8,699,044 thousand, respectively.

3.3.5.1.1 The Company's Articles of Incorporation regulate the following matters:

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

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

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

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

- The profit of the Company in 2020 is NT\$10,349,255,916 ("profit" as mentioned in the first paragraph refers to pre-tax profits before deducting the distributed employees and directors' remuneration). The Board of Directors on March 11, 2021, decided that the Company will remunerate the employees (NT\$1,000,000,000 in total; 9.66% of the profit) and the directors/supervisors (NT\$45,000,000 in total; 0.43% of the profit). The remuneration will be rewarded in cash and these decisions will be reported to the annual shareholders' meeting on May

28, 2021.

- 3.3.5.1.2 The analysis and comparison of the percentage of total remuneration for Directors, Supervisors, Presidents and Vice Presidents to the net profits after tax in the individual financial reports in the most recent two fiscal years is listed in this section.
- The analysis and comparison of the percentage of total remuneration for Directors and Supervisors to the net profits after tax in the individual financial reports in the most recent two fiscal years is listed in this section.
 - a. According to the Article 19 of the Articles of Incorporation of the Company, if the Company makes a profit, 8% to 19% of it shall 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 shall be used to compensate this loss first. Handled according to regulations.
 - b. The percentage of total payment of remuneration of directors to individual financial statements in 2020 increased compared with 2019 is due to the increase in the number of directors from seven to nine at the shareholders' meeting held on June 3, 2020 and the inclusion of the employee stock option compensation expense recognized for the compensation received by the Company's directors who are also employees based on IFRS2 share-based payment.
 - c. The percentage of total payment of remuneration of supervisors to individual financial statements in 2020 decreased compared with 2019 is due to the establishment of the Audit Committee in June 2019 in accordance with the Securities and Exchange Act and the Company's Articles of Incorporation, and the discontinuation of the Supervisors in accordance with the law.
 - The analysis and comparison of the percentage of total remuneration for President and Vice Presidents to the net profits after tax in the individual financial reports in the most recent two fiscal years is listed in this section.
 - a. The remuneration of the President and Vice Presidents will be reviewed by the remuneration committee and submitted to the Board of Directors for discussion and approval.
 - b. The percentage of total payment of remuneration of President and Vice Presidents to individual financial statements in 2020

increased compared with 2019 is due to the inclusion of employee stock option compensation expense recognized in accordance with IFRS2 share-based payment.

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

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

Concerning the Director remuneration, Article 19 of the Articles of Incorporation stipulates that if there are profits for the fiscal year, the Company shall allocate no more than 1.5% as the remuneration for directors and supervisors; and there is no other remuneration items other than that. In addition to evaluating the performance of the Board of Directors by taking into account the results of the annual performance evaluation of the Board of Directors, the remuneration committee will consider the recommendations individually and submit them to the Board of Directors for review. The remuneration system is reviewed from time to time in response to actual operating conditions and relevant laws and regulations in order to strike a balance between sustainable management and risk control.

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

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

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

A total of 14 meetings (A) of the Board of Directors were held in 2020. The attendance of director and supervisor were as follows:

Position	Name	Actual Attendance	Attendance by proxy	Percentage of Actual Attendance (%) (B/A)	Remark
Chairman	Khein Seng Pua	14	0	100.00	Re-elected on June 3, 2020
Director	Chee Kong Aw Yong	14	0	100.00	Re-elected on June 3, 2020
Director	Tzung Horng Kuang	14	0	100.00	Re-elected on June 3, 2020
Director	Chih Jen Hsu	6	0	100.00	Former term
Director	Chenghe Investment Co., Ltd. Representative: Chih Jen Hsu	8	0	100.00	Elected on June 3, 2020
Director	KIOXIA Corporation Representative: Hiroto Nakai	13	0	100.00	Re-elected on June 3, 2020; resigned on November 13, 2020
	KIOXIA Corporation Representative: Hiroshi Miyauchi	0	1	0.00	Newly elected on November 13, 2020
Independent Director	Shu Fen Wang	6	0	100.00	Former term
Independent Director	Chen Wei Wang	12	2	85.71	Reelected
Independent Director	Wen Chiu Chung	8	0	100.00	Elected on June 3, 2020
Independent Director	Yu Lun Huang	8	0	100.00	Elected on June 3, 2020
Director	Giunn Yeong Yang	8	0	100.00	Elected on June 3, 2020
Supervisor		6	0	100.00	Former term
Supervisor	Huei Ming Wang	6	0	100.00	Former term
Supervisor	Chiun Hsiou Chen	6	0	100.00	Former term

The attendance of Independent Director in 2020 is as follows: ◎ : Actual Attendance ☆ : By Proxy * : Absence

2020	29th Meeting of the Eighth Term	30th Meeting of the Eighth Term	31th Meeting of the Eighth Term	32nd Meeting of the Eighth Term	33rd Meeting of the Eighth Term	34th Meeting of the Eighth Term
Shu Fen Wang	◎	◎	◎	◎	◎	◎
Chen Wei Wang	◎	◎	◎	◎	◎	☆

2020	1st Meeting of the Ninth Term	2nd Meeting of the Ninth Term	3rd Meeting of the Ninth Term	4th Meeting of the Ninth Term	5th Meeting of the Ninth Term	6th Meeting of the Ninth Term	7th Meeting of the Ninth Term	8th Meeting of the Ninth Term
Wen Chiu Chung	◎	◎	◎	◎	◎	◎	◎	◎
Chen Wei Wang	◎	◎	◎	◎	☆	◎	◎	◎
Yu Lun Huang	◎	◎	◎	◎	◎	◎	◎	◎

Other mentionable items:

I. 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:

3.4.1 Matters referred to in Article 14-3 of the Securities and Exchange Act:

Board of Directors Date	Period	Content of motion	Independent Director's opinion	The Company's handing of the opinions of Independent Directors
2020.01.17	29th Meeting of the Eighth Term	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.
		The Company engaged in the cash injection increase plan of "Phisontech Electronics Taiwan Corp."		
		Amendment to part of "Measures for Financial Statement Preparation Procedure Management", "Management Auditing of Financial Statement Preparation Procedures", "Measures for Management of Liability Preparation and Contingent Matters", "Auditing of Measures for Liability Preparation and Contingent Matters Management" and "Authorizing Table"		
		Amendment to part of "Financial and Operational Information Management", "Auditing of Financial and Operational Information Management"		
		Jhunan Phase V Plant Building Construction Project		
2020.03.16	30th Meeting of the Eighth Term	Review the special performance evaluation and distribution of special performance incentive bonus to managers		
		The Company handling the private common shares		
2020.03.27	31th Meeting of the Eighth Term	The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan" for managerial officers		
		The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan"		
		Accounting director transaction		
		The Company establishes "FY2019 Employee Stock Option Plan"		
2020.05.13	33rd Meeting of the Eighth Term	The regular performance evaluation and proposal for adjustment of the annual fixed salary for managers		
2020.05.21	34th Meeting of the Eighth Term	The Company's proposed investment to acquire 49% of the shares of Nextorage Corporation		
2020.07.14	2nd Meeting of the Ninth Term	Amendments to the "2020 Audit Plan"		
		Amendments to the Company's "Internal Audit System"		
		The Company plans to dispose of all KINGSTON SOLUTIONS INC.'s stocks		
2020.07.30	3rd Meeting of the Ninth Term	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2019 and the Performance Incentive Bonus and the Employee Compensation during 2019 for managerial officers		
2020.08.04	4th Meeting of the Ninth Term	The subsidiary of the Company, Core Storage Electronic (Samoa) Limited, proposes to transfer 46.48% of its paid-in capital of Core Storage Electronics (Samoa) Limited to Shenzhen HOSINTRON Enterprise Management Partnership (L.P.) and Shenzhen Hosin Micro Enterprise Management Partnership (L.P.), and the consideration will be paid by cash		
		The subsidiary of the Company, Core Storage, proposes to participate in the capital increase of Hosin, with the consideration of Core Storage held 24.59% of Core Storage Electronics (Samoa) Limited's paid-in capital of.		
2020.10.05	6th Meeting of the Ninth Term	Proposed cancellation of the register of managers of the first issue of employee stock options issued by the Company in 2019		
		The List of first issuing Employee Stock Option under the "FY2020 Employee Stock Option Plan" for managerial officers		
		The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan" for managerial officers		

2020.11.12	7th Meeting of the Ninth Term	Review of family day special bonus and special incentive bonus for managerial officers		
		New construction of the Company's factory and ancillary loading/unloading parking space		
		The proposal of the "2021 Annual Audit Plan"		
		Amendment to part of "Property, Plant and Equipment Cycling", "Measures for Property, Plant and Equipment Management", "Salary and Labor Cycle" and "Vetting Authority Table"		
2020.11.30	8th Meeting of the Ninth Term	The subsidiary of the Company, Core Storage Electronic (Samoa) Limited, proposes to participate in the capital increase of HOSIN Global Electronics Co., Ltd, with the consideration of Core Storage held 24.41% of Core Storage Electronics (Samoa) Limited's paid-in capital.		
		Amendments to the "2021 Audit Plan"		

3.4.1 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.

II. If there are Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motion, causes for avoidance and voting should be specified:

Date of the Meeting	Content of motion	Name of Directors	Causes for Avoidance	Voting or No [Note 1]
2020.01.17	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Directors: Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang and Chih Jen Hsu	Related Parties of the Motion	No
2020.03.16	Review the special performance evaluation and distribution of special performance incentive bonus to managers.	Directors: Khein Seng Pua and Chee Kong Aw Yong		
2020.03.27	The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan" for managerial officers	Directors: Khein Seng Pua, Chee Kong Aw Yong and Tzung Horng Kuang		
2020.07.14	The Company plans to dispose of all KINGSTON SOLUTIONS INC.'s stocks	Director: KIOXIA Corporation		
2020.07.30	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2019 and the Performance Incentive Bonus and the Employee Compensation during 2019 for managerial officers	Directors: Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang, Chih Jen Hsu, Jiunn Yeong Yang and KIOXIA Corporation; Independent Director: Chen Wei Wang		
2020.10.05	The List of first issuing Employee Stock Option under the "FY2020 Employee Stock Option Plan" for managerial officers	Directors: Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang and Chih Jen Hsu		
	The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan" for managerial officers	Directors: Khein Seng Pua and Tzung Horng Kuang		
2020.11.12	Review of family day special bonus and special incentive bonus for managerial officers	Directors: Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang and Chih Jen Hsu		

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

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

Frequency	Period	Scope	Method	Content	Rating
Once a year	January 1, 2020 to December 31, 2020	Including the evaluation of the performance of the entire Board, board members and functional committees as a whole	The Board of Directors' Performance Evaluation Questionnaire, the Board Members' Performance Evaluation Self-Assessment Questionnaire, and the Functional Committee Performance Evaluation Questionnaire were used to evaluate the performance of the Board of Directors, and each evaluation item was rated on a five-point scale of "excellent (5), very good (4), good (3), fair (2), and to be enhanced (1).	(I) The measurement items for the performance evaluation of the Board of Members include the following five aspects: 1. Participation in the operation of the Company. 2. Improvement of the quality of the board of directors' decision making. 3. Composition and structure of the board of directors. 4. Election and continuing education of the directors. 5. Internal control. (II) The measurement items for the performance evaluation of the Board Members include the following six aspects: 1. Alignment of the goals and missions of the Company. 2. Awareness of the duties of a director. 3. Participation in the operation of the Company. 4. Management of internal relationship and communication. 5. The director's professionalism and continuing education. 6. Internal control. (III) The five main criterion of performance evaluation of the Company's functional committees: 1. Participation in the operation of the Company. 2. Awareness of the duties of the functional committee. 3. Improvement of quality of decisions made by the functional committee. 4. Makeup of the functional committee and election of its members. 5. Internal control.	(I) The overall result of the Board's performance self-assessment is excellent (II) The overall result of the self-assessment of the performance of the board members is excellent. (III) The overall result of the Audit Committee's performance self-assessment was excellent. (IV) The overall result of the Remuneration Committee's performance self-assessment is excellent.

IV. 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:

(I) Improve the functions of Board of Directors:

1. The Board of Directors was operated based on the "Rules of Procedure for Board of Directors Meetings" of the Company.
2. On November 12, 2020, the Company established the "Board of Directors' Performance Evaluation Method" to conduct annual performance evaluation of the Board of Directors. The evaluation of the Board of Directors' performance for the year 2020 was completed and the results were reported to the Board of Directors on March 11, 2021.
3. Advanced training of Directors on corporate governance or related to current affairs: The Company arranges advanced training every year for Directors to obtain relevant information, which benefits their core values, professional advantages and capabilities.
4. The Company encourages each director to actively participate in any relevant events to the operation of the Board, and the annual attendance rate of each director at the Board of Directors' meetings (excluding proxy attendance) should not be less than 80% and included in the board's performance appraisal project.

(II) Evaluation of the implementation:

1. The Company reveals its finance and business information on the Taiwan Stock Exchange Market Observation Post System and the Company's website to ensure the information disclosure; the attendance of Directors to Board of Directors and the advanced training of directors were also disclosed on the Taiwan Stock Exchange Market Observation Post System, as well as the communication summary of Independent Director and accountant, and meetings between the Independent Director and audit officer to disclose the information and improve the governance of the Company.
2. In 2020, the Audit Committee and the Remuneration Committee, which are composed of all independent directors, will assist the Board of Directors in carrying out its supervisory duties in order to improve the Company's corporate governance and strengthen the management function.

3.4.2 Audit Committee Operations

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

3.4.2.2 Current Audit Committee Term: June 3, 2020 to June 2, 2023, A total of 5 (A) Audit Committee meetings were held in 2020. The information and attendance of the members were as follows:

Position	Name	Actual Attendance (B)	Attendance by proxy	Percentage of Actual Attendance (%) (B/A)	Remark
Convener	Wen Chiu Chung	5	0	100.00	Elected on June 3, 2020
Independent Director	Chen Wei Wang	4	1	80.00	
Independent Director	Yu Lun Huang	5	0	100.00	

Other mentionable items:

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

- (I) The primary function of the Audit Committee is the supervision of the items listed below
1. Fair presentation of the financial reports of the Company.
 2. The hiring (and dismissal), independence, and performance of certificated public accountants of the Company.
 3. The effective implementation of the internal control system of the Company.
 4. Compliance with relevant laws and regulations by the Company.
 5. Management of the existing or potential risks of the Company.

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

1. The adoption of or amendments to the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
2. Assessment of the effectiveness of the internal control system.
3. The adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of the procedures for handling financial or business activities of a material nature, such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, and endorsements or guarantees for others.
4. Matters in which a director is an interested party.
5. Asset transactions or derivatives trading of a material nature.
6. Loans of funds, endorsements, or provision of guarantees of a material nature.
7. The offering, issuance, or private placement of equity-type securities.
8. The hiring or dismissal of a certified public accountant, or their compensation.
9. The appointment or discharge of a financial, accounting, or internal audit officer.
10. Annual financial reports signed by Chairman, Managerial Officer and Accounting Officer.
11. Other material matters as may be required by the Company or by the competent authority.

II. With regard to the implementation of the Audit Committee, if any of the following circumstances occurs, the dates, terms of the meetings, contents of motions, all Audit Committee resolutions, and Aurora's handling of such resolutions shall be specified:

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

Date	Discussion Proposal	Resolution	The Company's Response
2020.07.14 (The 1st meeting of the first term)	1. Proposed the amendment of the Company's "Internal auditing system"	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.	The motion was approved.
	(2) The Company plans to dispose of all KINGSTON SOLUTIONS INC.'s stocks		
2020.08.04 (The 2nd meeting of the first term)	(1) The Company proposes to increase the investment in the subsidiary of the Company, Regis Investment (Samoa) Limited ("Regis Investment"), for its re-investment in the subsidiary of the Company, RealYou Investment Limited ("RealYou Investment"), in order that the RealYou Investment could purchase the shares of the HOSIN Global Electronics Co., Ltd ("Hosin") from another subsidiary of the Company, Hefei Yichao Electronic Technology Co., Ltd. ("Hefei Yichao")		
	(2) The subsidiary of the Company, Core Storage Electronic (Samoa) Limited, proposes to transfer 46.48% of its paid-in capital of Core Storage Electronics (Samoa) Limited to Shenzhen HOSINTRON Enterprise Management Partnership (L.P.) and Shenzhen Hosin Micro Enterprise Management Partnership (L.P.), and the consideration will be paid by cash		
	(3) The subsidiary of the Company, Core Storage, proposes to participate in the capital increase of Hosin, with the consideration of Core Storage held 24.59% of Core Storage Electronics (Samoa) Limited's paid-in capital of		
2020.08.13 (The 3rd meeting of the first term)	(1) Financial statements for the second quarter of 2020		
	(2) Credit line of the Company		
	(3) The credit line of foreign exchange and derivatives for the Company		
2020.11.12 (The 4th meeting of the first term)	(1) Financial statements for the third quarter of 2020		
	(2) Credit line of the Company		
	(3) The credit line of foreign exchange and derivatives for the Company		
	(4) New construction of the Company's factory and ancillary loading/unloading parking space		
	(5) Amendment to the Company's "Property, Plant and Equipment Cycle", "Property, Plant and Equipment Management Regulations", "Salary and Labor Cycle" and "Vetting Authority Table"		
2020.11.30 (The 5th meeting of the first term)	(1) The subsidiary of the Company, Core Storage Electronic (Samoa) Limited, proposes to participate in the capital		

	increase of HOSIN Global Electronics Co., Ltd, with the consideration of Core Storage held 24.41% of Core Storage Electronic (Samoa) Limited's paid-in capital		
(II) Except as otherwise disclosed above, any other proposals which failed to obtain the approval of the Audit Committee, but were approved by two-thirds of the directors: None.			
III. If there were independent directors who abstained from voting due to conflict of interest, the independent directors' names, contents of the proposal, and causes of abstention should be specified: None			
IV. Communication between Independent Directors, the internal Chief Audit Officer , and the CPAs:			
(I) Communication between independent directors and internal Chief Audit Officer			
The Audit Office has held a "Communication Meeting between Independent Directors and Audit Supervisors" on November 18, 2020, and will follow up and make improvements based on the recommendations of the Independent Directors.			
(II) Communication between independent directors and CPAs			
Date	Discussion Points	Results	
March 16, 2020	<ol style="list-style-type: none"> 1. The CPA explains the responsibility of the Members and the directors to governance the Company 2. The CPA state they and the firm have follow the rule of CPA independences 3. The CPA explains their audit results of the Company's financial statement of 2019; including the scope and method of the audit and the risk description and response procedures for key audit matters 4. The CPA explains the recently rules or explanation issued by competent authorities 5. The CPA responds and discusses the questions the Members rise 	The CPA issued "unqualified audit reports with emphasis of matter paragraph" to the company's 2019 consolidated financial report and individual financial report. The Members have understood the accountant's explanation and has no opinion on the audit matter and the audit conclusion.	
November 18, 2020	<ol style="list-style-type: none"> 1. The CPA explains the responsibility of the BODs to governance the Company 2. The CPA explains their reviewed results of the Company's financial statement of 2020 nine months 3. The CPA state they and the firm have follow the rule of CPA independences 4. The CPA explains their audit plan of the Company's financial statement of 2020; including the scope and method of the audit and the risk description and response procedures for key audit matters 5. The CPA responds and discusses the questions Independent Directors rise 	The Independent Directors have understood the CPA's explanation and ask the CPA approaching the plan. The Independent Directors and CPA will have a communication after the audited of 2020 financial reports finished.	

3.4.3 Attendance of Supervisors at Board of Directors

On June 3, 2020, the Company re-elected its directors and set up an audit committee to replace the duties of the supervisor. 6 board meetings were held during the term of office of the supervisor in 2020, and the attendance of the supervisor was as follows.

Position	Name	Actual Attendance	Percentage of Actual Attendance (%)	Remark
Supervisor	Jiunn Yeong Yang	6	100.00	Former term (The Audit Committee was established on June 3, 2020 in place of supervisors)
Supervisor	Huei Ming Wang	6	100.00	
Supervisor	Chiun Hsiou Chen	6	100.00	

Other mentionable items:

I. 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 the Company and supervise the departmental managers to find the solutions to review and improve the status.

1. Communication between Supervisors and CPAs:

Date	Discussion Points	Results
March 16, 2020	<ol style="list-style-type: none"> 1. The CPA explains the responsibility of the Members and the directors to governance the Company 2. The CPA state they and the firm have follow the rule of CPA independences 3. The CPA explains their audit results of the Company's financial statement of 2019; including the scope and method of the audit and the risk description and response procedures for key audit matters 4. The CPA explains the recently rules or explanation issued by competent authorities 5. The CPA responds and discusses the questions the Members rise 	The CPA issued "unqualified audit reports with emphasis of matter paragraph" to the company's 2019 consolidated financial report and individual financial report. The Members have understood the accountant's explanation and has no opinion on the audit matter and the audit conclusion.

II. 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.

3.4.4 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 thereof
	Yes	No	Abstract Illustration	
I. 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		The Company has established a "Corporate Governance Best-Practice Principles" in accordance with the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies", which has been disclosed on the Company's website, please refer to the Company's website at www.phison.com/Investor Relations/Corporate Governance / Major Internal Rules / Corporate Governance Best-Practice Principles	No major deviation.
II. Shareholding structure & shareholders' rights				
(I) Does the Company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		(I) The 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.	(I) No major deviation
(II) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(II) The Company possesses the list of its shareholders from the Stock Transfer Agent to know the shares held by directors, management team and major shareholders (over 10% of the stocks). The Company has a good communication with them.	(II) No major deviation
(III) Does the Company establish and execute the risk management and firewall system within its conglomerate structure?	V		(III) The 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, and firewall are established, and auditors regularly monitor the implementation.	(III) No major deviation
(IV) Does the Company establish	V		(IV) The Company has established	(IV) No major

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
internal rules against insiders trading with undisclosed information?			"Regulation of preventing internal transactions" to stop any behaviors of internal transactions. Irregular internal training is also held to stop any behaviors of internal transactions.	deviation
III. Composition and Responsibilities of the Board of Directors				
(I) Does the Board develop and implement a diversified policy for the composition of its members?	V		(I) Article 20 of the Company's "Corporate Governance Best-Practice Principles" stipulates the policy on diversity of board members. Please refer to page 50 of the annual report for the specific management objectives and implementation of the diversity policy.	(I) No major deviation
(II) Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		(II) In addition to the remuneration committee and Audit Committee required by the relevant laws. Currently setting up a Corporate Sustainability Management Committee with the following main functions and powers. We will establish other functional committees based on the operation and actual needs. 1. Formulate environmental and social policies in accordance with the Code of Corporate Social Responsibility Practice. 2. Corporate sustainability indicators and business promotion. 3. In accordance with the regulations of the FSC, the Company publishes a sustainability report every year to disclose relevant information. 4. Other significant matters as stipulated by the Company or the competent authority.	(II) No major deviation
(III) Does the Company establish	V		(III) Please refer to page 32 of the annual	(III) No major

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
evaluation measures and methods, conduct performance evaluation regularly every year, and submit the result of performance evaluation to the Board, and use it in individual director remuneration and nominating successors for reference?			report.	deviation
(IV) Does the Company regularly evaluate the independence of CPAs?	V		The Company evaluates the independence and suitability of the CPAs on a yearly basis and has the CPAs provide disclaimers and relevant documents of indicators such as the independence of the audit service team members, the consecutive service years of the CPAs, audit service quality, relevant industrial experiences, and the interaction with the management and internal audit supervisor, which will then be reviewed by the Board of Directors. The most recent two years' assessments were completed in January, 2020 and 2021 respectively.	(IV) No major deviation
VI. Does the TWSE/TPEX Listed Companies assign appropriate number of administrators and designate corporate governance director to take charge of corporate governance affairs (including but not limited to providing data required by directors, supervisors implementing business, assistance of directors, supervisors in complying with laws, handling relevant matters of the board meeting and shareholders' meeting, and preparing minutes of Board of Directors and shareholders' meeting)?	V		The Company has some departments to take charge of the following affairs: <u>1. Handling corporate registration and amendment registration:</u> The Shareholders Service Department will be in charge of company registration and change registration based on the resolutions from the Board of Directors or shareholders meeting and other related laws. <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</u>	No major deviation.

Evaluation item	Implementation status		Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	
			<p><u>Board of Directors' and shareholders' meetings:</u> According to Article 4 of the Rules of Procedure for Board of Directors Meetings, the Shareholders Service Department is the unit to administer the meeting proceedings. Hence, the Shareholders Service Department shall collect all the motions from all other departments and submit them to the Board of Directors for discussion. The Company commits Horizon Securities to conduct the affairs of shareholders' meetings.</p> <p><u>3. Update laws and regulations relevant to company operation:</u> The Chairman of the Company will appoint relevant departments and legal office to understand the effects of most updated laws and regulations on the operation of the Company.</p> <p><u>4. Assist Directors abiding by the laws:</u> In the re-election year, the Company provides new directors (Independent Directors included) with the handbook of laws and regulations. In addition, at least six hours of training will be provided for Directors to understand the laws and regulations.</p> <p><u>5. Affairs relating to investor relations:</u> To ensure the shareholders' rights, the Company has spokesman, deputy spokesman, shareholders service dept. and legal office to deal with the suggestions and conflicts. The Company also establishes an IR department to answer the questions from shareholders. Shareholders can visit the official website of the Company and find the "stockholders'</p>

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
			area" to submit the suggestions and opinions	
V. 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>The 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> The Company has mailboxes for them to send opinions. In addition, forums and opinions surveys 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 the 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> The Company can accept the complaints from local communities at any time and will participate in community activities</p>	No major deviation.

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
			and charity event.	
VI. Does the Company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company commits Horizon Securities to conduct the stock affairs	No major deviation.
VII. Information Disclosure				
(I) Does the Company have a corporate website to disclose both financial standings and the status of corporate governance?	V		(I) The Company posts its financial and business information on the Market Observation Post System and establishes the website (www.phison.com) to disclose relevant information.	(I) No major deviation
(II) 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		(II) (1) The Company has established Chinese, English, Japanese and Simplified Chinese website. (2) The website is updated on a regular basis. (3) Contact information of spokesman : antonioyu@phison.com kuoting_lu@phison.com (4) Refer to Market Observation Post System for relevant information.	(II) No major deviation
(III) Does the Company publicize and declare the annual financial report within two months upon the end of the fiscal year, and Q1, Q2 and Q3 Financial Report and operation status of each month prior to the scheduled period?	V		(III) The Company has declared 2020 Financial Report on March 11, 2021, which is more than 15 days earlier than the time required by law, and has completed the declaration of Q1, Q2 and Q3 Financial Report and operation status of each month.	(III) No major deviation
VIII. 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	V		(I) Status of employee rights and employee wellness: The Company provides employees with a 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,	No major deviation.

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
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)?			<p>training, etc. to offer a fair competition and code of conduct. The Company has established an employee welfare committee, sexual harassment appeal committee, pension committee, etc. to protect employees' rights and welfare. Since 2011, the Company has committed the "Hsinchu Lifeline. Association/Employee Assistance Service Center" till October 2018, after November 2018 was changed by "Newmind EAP Consultation Co., Ltd" to help employees solving all kinds of problems.</p> <p>(II) Investor Relations: The 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 the Company by phone or email for their questions.</p> <p>(III) Supplier Relations: The Company keeps a good relationship with the suppliers and has the policy and regulations to communicate with suppliers. The Company also signs contracts with suppliers to protect rights of both parties.</p> <p>(IV) Stakeholders' rights: The Company has established the "Regulations of financial business between affiliated companies" and the "Management operation of transactions with stakeholders" to protect the rights of stakeholders and the Company. The Company also signs contracts with suppliers to</p>	

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
			<p>protect the rights of both parties.</p> <p>(V) Advanced training of directors: The advanced training of Directors in 2020 was listed on page 73 to page76 of the annual report. Directors of the Company all have their expertise in their area. The Company will arrange advanced training for Directors based on the laws and regulations in Taiwan.</p> <p>(VI) Status of risk management policies and risk evaluation: The Company has measures and evaluation standards to manage and evaluate risks.</p> <p>1. Financial risk (Finance and Accounting Department)</p> <p>(1) To evaluate the effects of interest, exchange rate, inflation on the net income.</p> <p>(2) 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>2. Legal risk (Legal Office)</p> <p>(1) The major risks are lawsuits and contract disputes.</p> <p>(2) Reviewing the contracts can lower the risks.</p> <p>3. Intellectual property risk (Intellectual Property Office)</p> <p>(1) By extensive patent strategy, the Company protects the rights of itself and customers.</p> <p>(2) To abide by the relevant laws of intellectual property and to claim the rights for protecting intellectual rights.</p> <p>4. Information risk (Information Department)</p>	

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
			<p>(1) To plan information security polity and all kinds of information security measures to lower the risk of information security.</p> <p>(2) 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>(3) The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy," "QW220010 Information System Change Management Specification," "QW220011 Server Host Management Specifications," "QW220006 System Development and Maintenance Management Specifications," etc. On August 12, 2020, the Committee held an audit meeting to review and improve information security and assess applicability, and on October 19, 2020, the Committee has obtained the three-year re-examination of BSI British Standards Association ISO27001 international security certificate. In the future, the Committee will keep</p>	

Evaluation item	Implementation status			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof
	Yes	No	Abstract Illustration	
			<p>strengthen colleagues and organization over information security protection and establishes joint defense mechanism with vendors or partners in future.</p> <p>5. Environment risk (Environmental Safety and Health Risk Management Department)</p> <p>(1) To evaluate the effects of operations on the natural environment, security and employee health.</p> <p>(2) By continuous hazard identifications and risk evaluation, the Company can control the risk at the tolerant level to protect the environment from hazards.</p> <p>(VII) Implementation of customer service: The Company's website is provide contact information for customers and dedicated area for stakeholders to send complaints.</p> <p>(VIII) Buying liability insurances for directors and supervisors: According to the Article 16-2 of the Company's Articles of Incorporation, "The Company should buy liability insurances for directors during their terms to cover the damage due to their business operation", The Company may buy liability insurances for directors 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.</p>	

IX. 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.

(I) The Company plans its predicted improvement index according to the final evaluation result of the 6th corporate governance evaluation, and its improvement is as follows:

Number	Evaluation Item	Improvement	Actions to improve
2.1	Has the Company formulated the Corporate Governance Best Practice Principles that is adopted by the Board of Directors?	In 2020, the Company formulated the "Corporate Governance Best-Practice Principles".	None
2.2	Has the Company established the board diversity policy and disclosed the detailed management objective and implementation status of the policy in the Company's website and annual report?	Article 20 of the Company's "Corporate Governance Best-Practice Principles" stipulates the policy on diversity of board members, and the specific management objectives and implementation of the diversity policy are disclosed on the Company's website and annual report.	None
2.10	Has the Company established the Audit Committee that meet the requirements?	The Company has established the Audit Committee on June 3, 2020 and disclosed the annual work focus of the Audit Committee and the operation of the year on the Company's website and annual report.	None
2.15	Has the Company disclosed the communication status between the Independent Directors and the internal audit director and CPAs (such as the ways of communication, items, and results of the Company's financial reports, financial and business conditions) on the Company's website?	The Company has disclosed the communication between the independent directors and the internal auditors and CPAs in 2020 on the Company's website.	None
2.25	Has the Company's Rules Governing the Performance Evaluation of the Board of Directors been approved by the Board of Directors? Has the Company stated that an external evaluation shall be conducted at least every three years and executed the evaluation accordingly within the prescribed period? Has the Company disclosed the execution process and evaluation results on the Company's website or in the annual report?	The Company's Board of Directors has established the "Self-Evaluation or Peer Evaluation of the Board of Directors" in 2020.	None
2.27	Does the Company establish an intellectual property management plan which is linked to operational targets, disclose the execution process on the Company's website or the Annual Report, and report to the	The Company's "Intellectual Property Management Plan" was reported to the Board of Directors on November 12, 2020 for implementation during the year.	None

	Board of Directors at least once a year?		
3.17	Does the Company website disclose information relating to finance, business, and corporate governance?	The Company has disclosed information on corporate governance on the Company's website, including quarterly financial reports for the last three years (2018-2020), a description of the Company's business or products, a description of the professional background of individual members of the Board of Directors with respect to corporate governance, a description of the corporate governance structure, the composition and operation of the Board of Directors and functional committees, and the Company's Articles of Incorporation etc.	None
3.20	Does the Company invited (self) to hold at least two investors conferences, and the first two interpretations of the road shows will be separated by more than three months?	In 2020, the Company was invited to hold nine investor conferences, with the first and last corporate meetings of the year being held more than three months apart.	None
4.2	Does the Company set up a full-time (part-time) unit to promote the ethical corporate management, responsible for the formulation, supervision and implementation of the ethical corporate management policy and prevention plan, and explain the operation and implementation of the setting unit on the Company's website and annual report, and report to the board of directors at least one-time per year?	The Company has established the "Corporate Sustainability Management Committee" and established the "Code of Conduct for Integrity Management" in the 2020 Board of Directors' Meeting, and reported on the implementation of integrity management at Board of Directors' Meeting on November 12, 2020, and its operation and implementation have been disclosed in the Company's website and annual report.	None
4.6	Does the Company adopt protect human rights policies and relevant management procedures referring to International Bill of Human Rights and disclose the information on its website or annual report?	The Company has disclosed information of protect human rights policies on the Company's website.	None
4.12	Does the Company have a policy on energy and carbon reduction, greenhouse gas reduction, water reduction or other waste management?	The Company has disclosed energy saving and carbon reduction, greenhouse gas reduction on the Company's website and in the Corporate Sustainability Report.	None
4.14	Does the Company's website or the annual report disclose the identity of stakeholders, issues of concern, communication channels, and response methods?	Significant issues and stakeholder content have been disclosed on the Company's website.	None
4.16	Has the Company established and disclosed a reporting system for the internal and external employees of the Company to report illegal (including corruption) and unethical acts?	The Company's Board of Directors has established the "Ethical Corporate Management Best Practice Principles" in 2020.	None

1.6	Has the Company held the regular shareholders' meeting by the end of May?	The Company's 2021 Annual General Meeting of Shareholders will be held on May 28, 2021.	None
1.15	Has the Company established and disclosed on the Company's website internal rules and practices that prohibit insiders, such as directors or employees, from using information that is not available in the marketplace to make a profit?	The Company has established the "Management Procedures for Prevention of Insider Trading" and held a director training course "Prevention of Insider Trading Promotion" on November 12, 2020 and an online course "Prevention of Insider Trading Promotion" for all employees of the Company in December 2020 to continuously implement corporate governance promotion.	None
3.2	Has the Company announced major news and information in English simultaneously?	The Company will simultaneously announce material information in English since January 1, 2021.	None
3.10	Has the financial report been approved or submitted to the Board of Directors 7 days before the date of announcement and published within 1 day after the date of approval or submission?	The Company continues to improve the evaluation of this indicator.	The Company will continue to improve according to the evaluation criteria

(Appendix IV-I) Policy on Diversity of Board Members.

Diversified Core Competences		Basic Composition						Industrial knowledge and expertise							
		Nationality	Gender	Part-time Employee	Length of service of independent directors			Operational judgment capability	Accounting and financial analysis capabilities	Business management capability	* Crisis management capability	Industrial Knowledge	Global market viewpoint	Leadership skills	Decision- making capability
					Less than 3 years	3 to 9 years	Over 9 years								
Name of Directors															
Chairman	Khein Seng Pua	Malaysia	Male	✓				✓	✓	✓	✓	✓	✓	✓	✓
Director	Chee Kong Aw Yong	Malaysia	Male	✓				✓	✓	✓	✓	✓	✓	✓	✓
Director	Tzung Horng Kuang	Taiwan	Male	✓				✓		✓	✓	✓	✓	✓	✓
Director	Chih Jen Hsu (Representative of Chenghe Investment Co., Ltd.)	Taiwan	Male	✓				✓		✓	✓	✓	✓	✓	✓
Director	Jiunn Yeong Yang	Taiwan	Male					✓				✓	✓		✓
Director	Hiroshi Miyauchi (Representatvie of KIOXIA Corporation)	Japan	Male					✓		✓		✓	✓	✓	✓
Independent Director	Wen Chiu Chung	Taiwan	Female		✓				✓	✓		✓	✓	✓	✓
Independent Director	Chen Wei Wang	Taiwan	Male			✓		✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Yu Lun Huang	Taiwan	Female		✓					✓	✓	✓		✓	✓

3.4.5 Composition, Responsibilities and Operations of the Remuneration Committee

3.4.5.1 Professional Qualifications and Independence Analysis of Remuneration Committee Members

Date: March 30, 2021

Title [Note 1]	Criteria Name	Fulfilling One of The Following Professional Qualification Requirements, Together With At Least Five Years of Work Experience			Independence Criteria [Note2]										Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remark	
		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	9	10			
Independent Director [Note 4]	Shu Fen Wang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	[Note 4]	Former term
Independent Director	Wen Chiu Chung		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Re-elected on July 14, 2020
Independent Director	Chen Wei Wang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	Re-elected on July 14, 2020
Independent Director	Yu Lun Huang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Elected on July 14, 2020

[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 the members during the two years prior to being elected or during the term of office. ✓

- (1) Not employed by the Company or any of its related companies.
- (2) 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).
- (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 ranking in the top 10 in holdings.
- (4) Not a spouse, or a relative within the second degree of kinship or lineal relative of third degree of kinship of manager or (2), (3) personnel listed in (1).
- (5) Not serving as a Director, Supervisor or Employee of Judicial Person Shareholder holding a 5% of total issued shares of the Company, holding the top five shares or appointing representatives to assume Director or Supervisor according to Subparagraph 1 and 2, Article 27, Company Act (this does not apply in cases where the person is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (6) Not serving as a Director, Supervisor or Employee of the other companies that their board seats of the Company or more than half of shares that owns voting rights controlled by the same person (this does not apply in cases where the person is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).

- (7) Not serving as a Director, Supervisor or Employee of other companies or agencies that are the same person, or spouse of a Director, GM or Person holding equivalent position of the Company (this does not apply in cases where the person is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (8) Not a Director, Supervisor, Manager or shareholder holding over 5% shares of special company or agency that has financial or business interactions with the Company (this does not apply in cases where the person that special company or agency holding more than 20%, less than 50% of the total issued shares, and is an Independent Director of the Company, its parent or subsidiary, or subsidiary belonging to the same parent company established in pursuant to this law or local laws).
- (9) Not a Professional, Business Owner, Partner, Director, Supervisor, Manager and Spouse of Sole proprietorship, partnership, company or institution in terms of relevant service including commercial, legal, financial, accounting affair providing audit to the Company or affiliated enterprises or whose accumulative amount being no more than NTD 500,000 in recent two years. However, members of the special committee on remuneration, public acquisition review, or merger and acquisition who perform their functions and powers in accordance with the provisions of the Securities Trading Act or Business Mergers and Acquisitions Act and other relevant regulations shall not be subject to this provision.
- (10) Not been a person of any conditions defined in Article 30 of the Company Law.

[Note 3] On June 3, 2020, the Company re-elected all the directors and on July 14, 2020, the Board of Directors resolved to appoint the members of the 4th Remuneration Committee of the Company. The 4th Remuneration Committee of the Company appointed Ms. Wen Chiu Chung, Mr. Chen Wei Wang and Ms. Yu Lun Huang as the members of the 4th Remuneration Committee of the Company and Ms. Wen Chiu Chung as the convener.

[Note 4] Shu Fen Wang served as an independent director until June 3, 2020.

3.4.5.2 Attendance of Members at Remuneration Committee Meetings

(1) There are 3 members in the Remuneration Committee.

(2) Current Remuneration Committee Term: July 4, 2020 to June 2, 2023. A total of 7

(A) Remuneration Committee meetings were held in 2020. The information and attendance of the members were as follows:

Position	Name	Actual Attendance (B)	Attendance by proxy	Percentage of Actual Attendance (%) (B/A)	Remark
Convener	Shu Fen Wang	4	0	100.00	Former term
Convener	Wen Chiu Chung	7	0	100.00	Re-elected on July 14, 2020
Committee Member	Chen Wei Wang	7	0	100.00	Re-elected on July 14, 2020
Committee Member	Yu Lun Huang	3	0	100.00	Elected on July 14, 2020

Other mentionable items:

I. Scope of responsibilities of the Remuneration Committee:

(I) Periodically reviewing the Remuneration Committee Charter and making recommendations for amendments.

(II) Establishing and regularly reviewing the Directors, and Managerial Officers' performance

evaluation in conjunction with the remuneration policies, systems, standards, and structure.

(III) Periodically assessing the degree to which performance goals for the Directors, Supervisors, and Managerial Officers of this Corporation have been achieved, setting the types and amounts of their individual compensation based on the results of the reviews conducted in accordance with the performance assessment standards.

When performing the official powers referred to in the preceding paragraph, the Remuneration Committee shall follow the principles listed below:

- (I) Salary management should be in line with the Company's compensation philosophy.
- (II) Performance evaluation and remuneration of the directors and managers shall be based on the industry standards as well as their individual performance, the Company's operational performance, and reasonable assessments of future risks.
- (III) No member of the Committee may participate in discussion and voting when the Committee is deciding on that member's individual compensation.

II. 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.

III. 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.

3.4.5.3 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
2020.01.17 (The Fourteenth Meeting of the Third Term)	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 objection
2020.03.16 (The Fifteenth Meeting of the Third Term)	The consideration of the remuneration of Board of Directors and the employee compensation for managerial directors during 2019		
	Review the special performance evaluation and distribution of special performance incentive bonus to managers		
2020.03.27 (The Sixteenth Meeting of the Third Term)	The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan" for managerial officers		
2020.05.13 (The Seventeenth Meeting of the Third Term)	Review the list of new managers of the Company and their remuneration		

Date	Discussion Proposal	Resolution	The Company handles the opinions of Remuneration Committee Meetings' member
	Plan on the regular performance evaluation and annual fixed salary adjustment and distribution of managers of the Company		
2020.07.30 (The First Meeting of the Fourth Term)	Election of the convener and chairman of the Audit Committee		
	Review the Performance Evaluation for Directors, Supervisors, and managerial officers as well as the proposal for the Compensation of Directors, Supervisors in 2019 and the Performance Incentive Bonus and the Employee Compensation in 2019 for managerial officers		
	The meeting schedule of the Remuneration Committee for the year 2021		
2020.10.05 (The Second Meeting of the Fourth Term)	Proposal of the cancellation of the register of managers of the first issuance of employee stock options issued by the Company in 2019		
	The List of first issuing Employee Stock Option under the "FY2020 Employee Stock Option Plan" for managerial officers		
	The List of second issuing Employee Stock Option under the "FY2019 Employee Stock Option Plan" for managerial officers		
2020.11.12 (The Third Meeting of the Fourth Term)	Review the amendment of the Company's "Salary Management Regulations"		
	Establish the "Board of Directors' Performance Evaluation Method" of the Company		
	Review of family day special bonus and special incentive bonus for managerial officers		

3.4.6 Corporate Social Responsibility and Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons

Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
I. Has the Company evaluated the environmental, social, and corporate governance risks related to its operations based on the principle of materiality and established related risk management policies or strategies?	V		The Company has defined the evaluation of environmental, social, and corporate governance risks related to its operations based on the principle of materiality. Including: financial risks, legal risks, intellectual property risks, information risks and climate risks. Please refer to the corporation website at www.phison.com/CSR/ Resource Centre /2019 Corporate Sustainability Report/Materiality & Stakeholders (P9-P11) / Risk Management (P28) /Climate Change Management (P44) and our website at https://www.phison.com/en/Investor-Relations/Corporate-Governance/ Corporate Sustainability Management Committee .	No major deviation.
II. 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		The Company has set up a dedicated unit called "Corporate Sustainability Management Committee" to promote corporate social responsibility, with the Chief Operating Officer and Senior Special Assistant as the management representative and senior executives of relevant departments as the members of each structure, with the Commissioner responsible for coordinating and promoting cross-departmental corporate sustainability issues. Please refer to the corporation website at https://www.phison.com/en/Investor-Relations/ Corporate Sustainability Management Committee .	No major deviation.
III. Environmental Issues				
(I) Does the company establish	V		The Company has approved the standard of ISO 14001 Environmental management in 2008, the Company also abides by the ISO 14001 standard to build the	(I) 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 Illustration	
proper environmental management systems based on the characteristics of their industries?			<p>environmental management system and follow the laws of environmental protection and respect the commitment to customers. Considering the impacts on the environment, the Company has established goals and projects and collaborated with affiliates to improve the environmental protection, save energy and reduce wastes to protect our environment.</p> <p>The Company has approved the standard of OHSAS 18001 Occupational Health and Safety Assessment Series in 2010. the 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, the Company has established goals and projects and collaborated with affiliates to lower the risks of occupational health and safety. The 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. Please refer to the corporation website at www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/5. Environmental Protection (P45-P54).</p>	
(II) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		<p>(II) The 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. Please refer to the corporation website at www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/5.6 Environmental Expense & Investment (P54).</p>	(II) No major deviation
(III) Does the Company evaluate the potential risks and chances of	V		<p>(III) The Company has conducted an opportunity and risk assessment for climate change and classified the risks into three categories: physical, transformation, and product/service to identify the financial impact of each risk/opportunity on the Company. The Company expects to purchase green power starting in 2021 and will increase its usage year by year to reduce greenhouse gas</p>	(III) 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 Illustration	
climate change at present and in the future and take response measures?			emissions. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/5.1 Climate Change Management (P44).	
(IV) Has the Company calculated the greenhouse gas emissions, water consumption, and total weight of waste over the past two years and established the policies with regard to energy conservation and carbon reduction, greenhouse gas reductions, water consumption, and waste management?	V		(IV) The Company has continuously examined the greenhouse gases since 2011 to investigate the consumed resources and produced greenhouse gases,. the Company made great efforts to integrate the ISO management system and the laws of environmental health and safety into the daily operations, implementing various energy-saving measures and resource recycling, etc. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/5 Environmental Protection (P45-P51).	(IV) No major deviation
IV. Social Issues				
(I) Does the Company formulate appropriate management policies and	V		(I) The Company recognizes and respects the internationally recognized basic labor human rights principles and complies with the Labor Standards Law and other related laws and regulations, and has established a human rights policy in June 2020, and is committed to treating all employees, contract and temporary staff, and interns with dignity. The policy includes banning child	(I) 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 Illustration	
procedures according to relevant regulations and the International Bill of Human Rights?			labor, prohibiting forced labor, eliminating unlawful discrimination and ensuring equal work opportunities, creating a work environment that is open to communication, establishing an open management style, providing a safe and healthy work environment, helping employees maintain physical and mental health and work-life balance, and regularly reviewing and evaluating related systems and practices. We also protect the freedom of association of our employees and establish multiple channels of communication between employers and employees. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/6.4 Social Responsibility (P66-P68) .	
(II) Has the Company established and executed proper employee benefits (including compensation, leave, and other benefits) and reflected the business performance or results in employee compensation appropriately?	V		(II) The Company has established internal work rules, salary management rules, employee performance management rules, reward and punishment management rules and other related management rules to regulate and reward employees, and the Company does implement them accordingly. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/6.3 Compensation and Welfare (P62-P65) .	(II) No major deviation
(III) Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on	V		(III) 1. As for maintaining the working environment, the Company commits the professional organizations to examine its working environment, including lighting, carbon dioxide, isopropanol, local exhaust, lead and noise. The drinking water is 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 check every month. Heavy metal test is conducted.	(III) 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 Illustration	
a regular basis?			<p>2. For the purpose of keep 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 service are also provided. Since 2015, in line with the policy of the Miaoli Health Bureau, we have been promoting workplace health promotion and obtaining certification; holding seminars on mother's class, blood donation, common dietary pitfalls and my meal plan, common periodontal problems in adults and children's dental care, watching out for body warning signs to avoid the threat of sudden death, modern Tai Chi health, reducing civilizational diseases, parent-child reading sharing, first aid education training & AED operation, etc., In cooperation with the Health Bureau, we promote "breastfeeding in the workplace"; we hold quarterly yoga classes and aerobic classes to promote weight loss; we have blind massage therapists in the factory three times a week to relieve stress and relax muscles through massages; we have family doctors in the factory three times a month to provide health consultation services; we arrange smear screening, gynecological ultrasound, and breast ultrasound for women in the annual health checkup. In cooperation with the Liver Disease Control Foundation, we provide blood sampling for liver, gastrointestinal and cancer screening, abdominal ultrasound and on-site consultation services; we arrange cervical cancer and influenza vaccinations.</p> <p>3. In accordance with the Occupational Safety and Health Administration and laws and regulations, we prepare and manage four major workplace programs, including: mother protection, overwork prevention, musculoskeletal protection, and occupational violence prevention. By questionnaire and interviews, the</p>	

Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>physical and mental condition of employees is taken care of.</p> <p>4. In terms of employee health care planning, the Company arranges free health seminars from time to time. Since 2011, the Company has been cooperating with the Hsinchu Lifeline and after November 2018, the Company has switched to the Employee Assistance Programs (EAPs) with Newmind EAP Consultation Co., Ltd. The welfare Association of the Company has organized many clubs and held many activities, which benefit the physical and mental conditions of our employees. These clubs include badminton, basketball, yoga, golf, softball, swimming, billiard, and Taichi.</p> <p>5. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/6.4 Social Responsibility (P70-P74).</p>	
(IV) Does the Company provide its employees with career development and training sessions?	V		<p>(IV) The Company has six training frameworks to plan the direction of annual training programs and the main training targets according to the needs of the organization and the professional functions of each department. In order to cope with the business development, improve the quality of human resources, and seek for the effective use of manpower, the human resources department and all related departments will hold various trainings on a regular or irregular basis to enrich the working knowledge and skills of employees. To confirm the effectiveness of training, we follow the Kirkpatrick Model's four stages: Response, learning, behavior, and results are evaluated. The effectiveness of non-online training courses is judged by the responses of trainees (satisfaction survey). The average satisfaction score for 2019 was 95.5. For online course evaluations, 12,386 participants completed the training, and 17.3% of the public courses were assessed by written exams. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/6.2 Talent Development (P60-P61).</p>	(IV) No major deviation
(V) Does the Company advertise and label its goods and services according to relevant	V		<p>(V) The Company labels all necessary information on the packages and user manuals of its products including "Brand", "RoHS Mark", "CE Mark" and "WEEE Symbol" to announce the safety conformity of the products/services and the law conformity of hazardous material. In 2019, the Company did not receive any complaints about leakage of customer information or violation of customer privacy, nor did it receive any</p>	(V) 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 Illustration	
regulations and international standards and make relevant consumer protection policies and complaint procedures?			complaints or penalties for marketing and labeling violations. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/3.2 Customer Relationship (P34)/ 5.5 Green Product P52-P53)	
(VI) Has the Company established the supplier management policies requesting suppliers to comply with laws and regulations related to environmental protection, occupational safety and health or labor rights and supervised their compliance?	V		(VI) The Company has attached importance on environmental and social protection, so the Company has requested by contract that the supplier has to abide by Responsible Business Alliance (RBA), and also identify key suppliers and conduct annual RBA audits on key suppliers. We also follow international environmental regulations, such as the Waste Electrical and Electronic Equipment Directive (WEEE), Restriction of Hazardous Substances Directive (RoHS), and Halogen Free (HF) regulations, to put the concept of sustainability into practice. Please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/4 Responsible Supply Chain (P36-P38)).	(VI) No major deviation.
V. Has the Company, referring to the International Standards or Guidelines for the Preparation of Reports, prepared the	V		To ensure the quality and transparency of information disclosure, the 2019 "Corporate Sustainability Report" was published based on the principle of The GR Content Index and the AA1000 Accountability Principles Standards. The preparation of the report was completed in June of 2020. The 2020 Corporate Sustainability Report will continue to be prepared using the above principles and is expected to be completed by June 2021. The Company's report has not yet obtained confirmation or assurance opinion from a third-party certification authority. Please refer to the corporation website	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 Illustration	
Corporate Social Responsibility Report to disclose non-financial information of the Company? Has the Company received assurance or certification of the aforesaid reports from a third party accreditation institution?			www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/About Report (P5) .	
<p>VI. 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>The Company has established the "Code of Corporate Social Responsibility Practice" in 2020, which covers the implementation of corporate governance, development of sustainable environment, protection of social welfare, and enhancement of CSR information disclosure, etc.</p>				
<p>VII. Other important information to facilitate better understanding of the Company’s corporate social responsibility practices:</p> <p>1. Environmental Protection: As for the responsibility about environmental protection, please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/5. Environmental Protection (P44-P54).</p> <p>2. Community participation, community contributions, social service, social public welfare, human right, health/safety and other social responsibility activities: As for the charity events, please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/7. Social Participation (P76-P79).</p> <p>3. Consumers' rights: As for the management of customer relationships, please refer to the corporation website www.phison.com/CSR/ Resource Centre/2019 Corporate Sustainability Report/3. Innovation & Service (P30-P34).</p>				

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

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
I. Establishment of ethical corporate management policies and programs				
(I) Has the Company established the integrity management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices and the commitment of the board of directors and senior management to rigorous and thorough implementation of such policies?	V		(I) In 2020, the Company established the " Ethical Corporate Management Best Practice Principles ", which is disclosed on the Company's website and the Market Observation Post System. The Company devotes itself to abide by the international regulations and local laws and moral principles agreed by the society, including fair competition, anti-trust, respecting local marketing rules, prohibiting illegal products protecting copyrights and all kinds of intellectual property. The Company signs confidential agreements with its directors and managers illustrates the rules which should be followed.	(I) 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	
(II) Has the Company established a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and establish prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"?	V		(II) To prevent unethical conduct, we have established the regulations in the employment contracts, as well as the code of work and the regulation of reward/punishment. In addition to asking employees to notify the Company in case of conflict of interest, we also set up an email for reporting such behavior (whistleblower@phison.com).	(II) 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	
(III) Has the Company specified in its prevention programs the operating procedures, guidelines, punishments for violations, and a grievance system and implemented them and review the prevention programs on a regular basis?	V		(III) The Company asks suppliers, contractors and other affiliates to sign documents for guaranteeing no illegal business activities and no bribes.	(III) No major deviation
II. Fulfillment of Integrity Management				
(I) Does the Company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?	V		(I) The Company has the internal code of work and the regulation of reward/punishment to avoid unethical behaviors. The Company selects the suppliers based on the principles of integrity and fairness to find the most competitive companies which are ethical. It is strictly prohibited to take a commission or other improper rewards.	(I) 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	
(II) Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity and regularly report the implementation of the ethical corporate management policies and prevention programs against unethical conduct to it?	V		(II) Integrity is one of the five core values of the Company and is always the basis of the operation of the Company. From Board of Directors to every unit, our operation is based on integrity. All colleagues, management team and Directors should believe and implement this regulation. The management team should take this very seriously and serve as good examples. The Company has set up a dedicated unit "Corporate Sustainability Management Committee" to promote corporate social responsibility and has reported on the implementation of integrity management in the Board of Directors' Meeting on November 12, 2020.	(II) No major deviation
(III) Does the Company establish policies to prevent conflicts of interest and provide appropriate communication	V		(III) The Company has code of work, code of conduct and regulations of reward/punishment to regulate its employees. It is prohibited for employees to endanger the rights of the Company because of personal rights.	(III) 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	
channels, and implement it?				
(IV) Has the Company established effective systems for both accounting and internal control to facilitate ethical corporate management, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or entrusted a CPA to conduct the audit?	V		(IV) To ensure the ethical operation, the Company have established effective systems for both accounting and internal control. Internal auditors approve all kinds of business and report the results to the Board of Directors.	(IV) No major deviation
(V) Does the Company	V		(V) Integrity is one of the five core values of this company and has been in our culture.	(V) 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	
regularly hold internal and external educational trainings on operational integrity?			We also stress this in all meetings to enforce this core value.	
III. Operation of the integrity channel				
(I) 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		(I) The Company has regulations of integrity, regulations of reward/punishment, code of work and code of conduct for employees to follow. In case of any improper behaviors, please report it to our human resource department by telephone or email (whistleblower@phison.com) or letter.	(I) No major deviation
(II) Has the Company established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after the investigation, and related	V		(II) In the communication protocol of the Company, all personnel should keep the informant data confidential.	(II) 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	
confidentiality mechanisms?				
(III) Does the Company provide proper whistleblower protection?	V		(III) The Company has regulations that the data of the informants should be kept confidential for protection to avoid that the informants are treated unfairly.	(III) No major deviation
IV. Strengthening information disclosure				
Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company’s website and MOPS?	V		The Company has a website for investors to review the relevant information. The information is posted on the Market Observation Post System for investors to understand governance.	No major deviation.
<p>V. 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: The Company has established the "Ethical Corporate Management Best Practice Principles" in 2020, which is disclosed on the Company's website and the Market Observation Post System. There was no major difference between its implementation and "Ethical Corporate Management Best Practice Principles for TWSE or TPEX Listed Companies". On November 12, 2020 the Board of Directors reported on the performance of integrity operations as follows.</p> <p>1. Code of Conduct with Integrity</p> <p style="padding-left: 40px;">A. Recusal of interest: When the Company convenes the Audit Committee, the Compensation Committee, and the Board of Directors' Meeting, the Company provides explanations in accordance with Article 206 of the Company Act when the directors have their own interests in the motion, and the directors who have their own interests will be recused from the discussion and voting on the motion.</p> <p style="padding-left: 40px;">B. Prohibition of insider trading and confidentiality agreements:</p>				

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons						
	Yes	No	Abstract Illustration							
<p>The Company has established The Procedures of Measures to Prevent Insider Trading to prevent insider trading and signed employment contracts for all employees, and from time to time, the directors, managers and employees are informed of the latest legal information in writing and by e-mail and are regularly informed. In addition to the aforementioned method, the Company plans to send online courses to directors, managers and employees of the Company on a regular basis every year as a mandatory annual training course.</p> <p>2. Education Training</p> <p>A. The implementation of ethics, human rights, and anti-corruption training for managers/employees/new recruits is as follows:</p> <table border="1"> <thead> <tr> <th>Training Name</th> <th>Number of people and hours</th> </tr> </thead> <tbody> <tr> <td>Training on ethics, human rights, anti-corruption, etc.</td> <td>Number of people: 3,580 Total hours: 10,268</td> </tr> <tr> <td>New recruits training on ethics, human rights, anti-corruption, etc.</td> <td>Number of people: 467 Total hours: 9,492</td> </tr> </tbody> </table> <p>B. The implementation of Directors' ethnics training is as follows: On November 12, 2020, the Directors' Education Program organized a course on prevention of insider trading. Participated in the 2020 Corporate Governance and Corporate Integrity Directors and Supervisors Seminar held by the Taiwan Stock Exchange and the Over-the-Counter Securities Trading Center.</p> <p>3. Establishing a whistle-blowing mechanism: the whistle-blowing system and whistle-blower protection The Company has established a specific reporting system in the "Corporate Governance Best Practice Principles", " Ethical Corporate Management Best Practice Principles ", "Code of Conduct" and " Ethical Corporate Management Best Practice Principles " to actively prevent dishonest behavior and encourage internal and external personnel to report dishonest behavior or misconduct. The Stakeholder Zone on the Company's website provides an effective means of communication among employees, shareholders, stakeholders, and outsiders. If a report involves a director or senior executive, it will be reported to the Board of Directors, and a whistleblower protection system has been established to keep the identity and content of the whistleblower confidential and to protect the whistleblower from improper treatment as a result of the report. The Company has not received any prosecution cases in 2020 and up to date.</p>					Training Name	Number of people and hours	Training on ethics, human rights, anti-corruption, etc.	Number of people: 3,580 Total hours: 10,268	New recruits training on ethics, human rights, anti-corruption, etc.	Number of people: 467 Total hours: 9,492
Training Name	Number of people and hours									
Training on ethics, human rights, anti-corruption, etc.	Number of people: 3,580 Total hours: 10,268									
New recruits training on ethics, human rights, anti-corruption, etc.	Number of people: 467 Total hours: 9,492									
<p>VI. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies). The Company has established the "The Procedures of Measures to Prevent Insider Trading" and "The Audit Procedures of Measures to Prevent Insider Trading". In the "Management</p>										

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
<p>Operation of Avoiding Insider Trading", there are provisions for "How to Define the Internal Critical Information Affecting Stock Price" and "Confidential Operation and Trading Prohibition Before the Internal Critical Information is Announced", etc. From time to time, the Company will educate its directors, managers and employees on the management procedures for prevention of insider trading and related laws and regulations in writing, by e-mail or by relaying the latest legal information.</p>				

3.4.8 Regulations of Governance and Their Disclosure

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

3.4.9 Other Important Information Regarding Corporate Governance

3.4.9.1 Advanced Training of Directors in 2020

Position	Name	Date Elected	Date of Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2020
			From	To				
Director	Khein Seng Pua	2020/06/03	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	6
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Director	Chee Kong Aw Yong	2020/06/03	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	6
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Director	Tzung Horng Kuang	2020/06/03	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	6
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Director	Jiunn Yeong Yang	2020/06/03	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	6

Position	Name	Date Elected	Date of Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2020
			From	To				
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Legal representative director	Chih Jen Hsu	2020/06/03	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	6
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Legal representative director	Hiroto Nakai	2020/06/03	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	6
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Legal representative director	Hiroshi Miyauchi	2020/11/13	2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	12
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
			2020/11/26	2020/11/26	Taiwan Corporate Governance Association	Intellectual Property Rights Protection and Trade Secrets Act	6.0	
Independent Director	Wen Chiu Chung	2020/06/03	2020/09/21	2020/09/21	Taipei Exchange	Corporate Governance for Listed Company 3.0-Summit Forum for the	3.0	15

Position	Name	Date Elected	Date of Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2020
			From	To				
						Blueprint of Sustainable Development		
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
			2020/12/15	2020/12/15	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead on Innovation Transformation	3.0	
			2020/12/15	2020/12/15	Taiwan Corporate Governance Association	How Corporates Strengthen Their Strategy Execution	3.0	
Independent Director	Chen Wei Wang	2020/06/03	2020/08/04	2020/08/04	Corporate Operation Association of the Republic of China	Battle Over Management Rights and Case Analysis	3.0	15
			2020/08/26	2020/08/26	Taiwan Corporate Governance Association	Trends and Challenges in Information Security Governance	3.0	
			2020/10/29	2020/10/29	Taiwan Corporate Governance Association	How to Strengthen the Corporate Management Rights by Effectively Enhancing Corporate Governance	3.0	
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and	3.0	

Position	Name	Date Elected	Date of Training		Sponsoring Organization	Course	Training Hours	Training Hours in 2020
			From	To				
						the amendment of the Insurance Law		
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	
Independent Director	Yu-Lun Huang	2020/06/03	2020/08/28	2020/08/28	Taipei Exchange	Seminar on the Shareholding of TWSE Listed and Emerging Companies	3.0	15
			2020/09/21	2020/09/21	Taipei Exchange	Corporate Governance for Listed Company 3.0-Summit Forum for the Blueprint of Sustainable Development	3.0	
			2020/10/22	2020/10/22	Taipei Exchange	2020 Directors and Supervisors Advocacy for Corporate Governance and Corporate Integrity	3.0	
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	The implementation of good corporate governance and the amendment of the Insurance Law	3.0	
			2020/11/12	2020/11/12	Taiwan Corporate Governance Association	Insider Trading Prevention Promotion	3.0	

3.4.9.2 Advanced Trainings of Management Team on Governance in 2020

Position	Date of Training	Sponsoring Organization	Course	Training Hours
Senior Manager	2020/05/21 - 2020/05/22	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours
	2020/09/24 - 2020/09/25	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours
	2020/11/19 - 2020/11/20	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours
Deputy Manager	2020/12/07 - 2020/12/08	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours

3.4.9.3 Advanced Trainings of Internal Auditor on Governance in 2020

Position	Date of Training	Sponsoring Organization	Course	Training Hours
Audit Director	2020/10/08	The Institute of Internal Auditors-Chinese Taiwan	Analysis of policies that increase the financial report preparation ability and discussion on internal audit and internal control	6 hours
Audit Director	2020/11/09	The Institute of Internal Auditors-Chinese Taiwan	How to Detect Hidden Fraud Signs and Case Studies	6 hours
Auditors	2020/07/22 - 2020/07/24	The Institute of Internal Auditors-Chinese Taiwan	Pre-job training for corporate internal auditing personnel	18 hours
Auditors	2020/09/04	The Institute of Internal Auditors-Chinese Taiwan	Auditing Practice for Manufacturing Industrial Material Management System	6 hours

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

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

3.4.9.5 Buying Insurances for Directors in the Past Two Years:

Subject	Insurance company	Insured amount	Term
All Directors and Supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2019/01/12 - 2020/01/12
All Directors and Supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2021/01/12 - 2022/01/12

3.4.9.6 Drafting of Corporate Sustainability Report:

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

Year	Principles	Remarks
2019	Conforming to the principles of GRI-101 and AA1000	Disclosed on the website and MOPS in June 2020.
2020	Conforming to the principles of GRI-101 and AA1000	It is expected to be disclosed on the website and MOPS in June 2021.

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

(1) Patent Management:

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

(2) Implementation status:

The company has reported the issues related to intellectual property to the board of directors on November 12, 2020.

In terms of the number of patent applications, as of the first quarter of 2021, the Company has more than 1,721 patents worldwide, 647 in Taiwan, 551 in the United States, 493 in China, and 30 in other countries.

In terms of patent quality, the Company's patent approval rate is over 90%, and in 2019, the Company was ranked 7th in the field of solid-state storage technology in China (Source: Hunan Provincial Institute of Science and Technology Information) and has been ranked among the top 100 domestic corporate invention patent applications in Taiwan for 12 consecutive years.

3.4.10 Implementation of Internal Control

3.4.10.1 Statement of Internal Control Phison Electronics Corporation Internal Control System Statement

Date: March 11, 2021

The Company states the following with regard to its internal control system during the fiscal year 2020, based on the findings of a self-assessment:

- I. 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.
- II. 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.
- III. 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.
- IV. The Company has assessed the design and operating effectiveness of its internal control system according to the aforesaid criteria.
- V. Based on the findings of the assessment mentioned in the preceding paragraph, the Company believes that as of December 31, 2020, 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 abovestated objectives.
- VI. 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.
- VII. This statement has been passed by the Board of Directors Meeting of the Company held on March 11, 2021, where none of the nine attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

Phison Electronics Corporation
Chairman: Khein Seng Pua (signature)
President: Chee Kong Aw Yong (signature)

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

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

3.4.12 Major Resolutions of Shareholders' Meeting and Board of Directors

3.4.12.1 Major Resolutions of Shareholders' Meeting

Date	Resolution	Implementation																								
2020.06.03 (Annual shareholders' meeting)	Recognition Matters (by Board of Directors)																									
	Adoption of the 2019 Business Report and Financial Statements	The 2019 individual financial statements and consolidated financial statements have been approved by the accountant Xin-Wei Dai and Yu-Wei Fan of Deloitte Touche Tohmatsu Limited and have been approved on March 16, 2020 in the Board of Directors. The information of the 2019 individual financial statement and consolidated financial statements are as follows: (Unit: Besides EPS (NT\$), others in NT\$ thousands)																								
		<table border="1"> <thead> <tr> <th></th> <th>Comprehensive Income Statements</th> <th>Consolidated Comprehensive Income Statements</th> </tr> </thead> <tbody> <tr> <td>Operating Revenue</td> <td>44,479,275</td> <td>44,693,441</td> </tr> <tr> <td>Gross Profit</td> <td>11,152,581</td> <td>11,149,275</td> </tr> <tr> <td>Operating Income</td> <td>5,212,694</td> <td>5,210,013</td> </tr> <tr> <td>Net Profit Before Tax</td> <td>5,340,446</td> <td>5,350,934</td> </tr> <tr> <td>Net Profit After Tax</td> <td>4,543,489</td> <td>4,545,837</td> </tr> <tr> <td>Total Comprehensive Income</td> <td>4,762,958</td> <td>4,764,337</td> </tr> <tr> <td>Basic EPS (after tax)</td> <td>23.05</td> <td>23.05</td> </tr> </tbody> </table>		Comprehensive Income Statements	Consolidated Comprehensive Income Statements	Operating Revenue	44,479,275	44,693,441	Gross Profit	11,152,581	11,149,275	Operating Income	5,212,694	5,210,013	Net Profit Before Tax	5,340,446	5,350,934	Net Profit After Tax	4,543,489	4,545,837	Total Comprehensive Income	4,762,958	4,764,337	Basic EPS (after tax)	23.05	23.05
		Comprehensive Income Statements	Consolidated Comprehensive Income Statements																							
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	Operating Income	5,212,694	5,210,013																							
	Net Profit Before Tax	5,340,446	5,350,934																							
	Net Profit After Tax	4,543,489	4,545,837																							
	Total Comprehensive Income	4,762,958	4,764,337																							
Basic EPS (after tax)	23.05	23.05																								
Adoption of the Proposal for Distribution of 2019 Profits	The Ex-Dividend date of the cash dividend is on August 3, 2020, and Cash dividend payment day is on August 28, 2020. (The proportion is NT\$13 per share for shareholder cash dividends).																									
Election Matters (by Board of Directors)																										
Election of nine directors (including three independent directors) for the ninth term	List of Directors Elected: Khein Seng Pua, Chee Kong Aw Yong, Tzung Horng Kuang, Representative of Chenghe Investment Co., Ltd: Chih Jen Hsu, Jiunn Yeong Yang, Representative of KIOXIA Corporation: Hiroto Nakai (Note). List of Independent Directors Elected: Chen Wei Wang, Wen Chiu Chung, Yu Lun Huang The above-mentioned list of elected directors and independent directors was approved for registration by the Ministry of Economic Affairs on July 1, 2020. (Note: On November 13, 2020, KIOXIA Corporation reassigned a representative director, Hiroshi Miyouchi, who was approved for registration by the Ministry of Economic Affairs on November 20, 2020.)																									
Discussion Matters (by Board of Directors)																										
Proposal for private placement for common shares of the Company	This private stock issuance has been cancelled on March 11, 2021 in the Board of Directors and will be reported to the 2021 shareholders' meeting.																									
Amendment to part of the "Articles of Incorporation" of the Company.	The resolution has been passed and operated according to the "Articles of Incorporation.", approved by the Ministry of Economic Affairs on July 1, 2020 to be registered and published on the Company's website.																									
Release newly appointed Directors of the Company from non-compete restrictions.	This resolution has been implemented and published in MOPS on June 3, 2020.																									

3.4.12.2 Important Resolutions by Board Meetings

Term of meeting	Date	Major Resolutions of Board of Directors
The 34th Meeting of the Eighth Term	2020.05.21	Acquisition of 49% of the shares of Nextorage Corporation
The 1st Meeting of the Ninth Term	2020.06.03	Election of the Chairman of the Ninth Term
The 2nd Meeting of the Ninth Term	2020.07.14	Appointment of Members of the 4th Remuneration Committee of the Company
		Amendment to " Regulations for Remuneration Committee"
		Amendment to "2020 Audit Plan"
		Amendment to "Internal Audit System"
		The Company plans to dispose of all KINGSTON SOLUTIONS INC.'s stocks
The 3rd Meeting of the Ninth Term	2020.07.30	(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 2019 and the Performance Incentive Bonus and the Employee Compensation during 2019 for managerial officers
The 4th Meeting of the Ninth Term	2020.08.04	(Proposed by the Audit Committee) The Company proposes to increase the investment in the subsidiary of the Company, Regis Investment (Samoa) Limited ("Regis Investment"), for its re-investment in the subsidiary of the Company, RealYou Investment Limited ("RealYou Investment"), in order that the RealYou Investment could purchase the shares of the HOSIN Global Electronics Co., Ltd ("Hosin") from another subsidiary of the Company, Hefei Yichao Electronic Technology Co., Ltd. ("Hefei Yichao")
		(Proposed by the Audit Committee) The subsidiary of the Company, Core Storage Electronic (Samoa) Limited, proposes to transfer 46.48% of its paid-in capital of Core Storage Electronics (Samoa) Limited to

Term of meeting	Date	Major Resolutions of Board of Directors
		<p>Shenzhen HOSINTRON Enterprise Management Partnership (L.P.) and Shenzhen Hosin Micro Enterprise Management Partnership (L.P.), and the consideration will be paid by cash</p> <p>The subsidiary of the Company, Core Storage, proposes to participate in the capital increase of Hosin, with the consideration of Core Storage held 24.59% of Core Storage Electronics (Samoa) Limited's paid-in capital of</p>
The 5th Meeting of the Ninth Term	2020.08.13	<p>(Proposed by the Audit Committee) The Company's 2020 2nd quarter financial statements</p> <p>(Proposed by the Audit Committee) The credit line of banks for the Company</p> <p>(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company</p> <p>Formulation of Corporate Governance Best-Practice Principles</p> <p>Formulation of Code of Corporate Social Responsibility Practice</p> <p>Formulation of Code of Conduct with Integrity</p>
The 6th Meeting of the Ninth Term	2020.10.05	<p>(Proposed by the Remuneration Committee) Cancellation of the list of first issuing employee stock option FY2019 for managerial officer</p> <p>(Proposed by the Remuneration Committee) The list of first issuing employee stock option under the "FY2020 employee stock option plan" for managerial officers</p> <p>(Proposed by the Remuneration Committee) Amendment to the list of second issuing employee stock option under the "FY2019 employee stock option plan" for managerial officers</p> <p>Cancellation of the first issuing employee stock option for 2019</p>

Term of meeting	Date	Major Resolutions of Board of Directors
		<p>The list of first issuing employee stock option under the “FY2020 employee stock option plan”</p> <p>The list of second issuing employee stock option under the “FY2019 employee stock option plan”</p>
The 7th Meeting of the Ninth Term	2020.11.12	<p>(Proposed by the Remuneration Committee) Amendment to the Company's Salary Management Measures</p> <p>(Proposed by the Remuneration Committee) Formulation of the Company's Methods to Evaluate Performance of the Board of Directors</p> <p>(Proposed by the Remuneration Committee) Review the special bonus and project incentive bonus for our managers' family day</p> <p>(Proposed by the Audit Committee) The Company's 2020 3rd quarter financial statements</p> <p>(Proposed by the Audit Committee) The credit line of banks for the Company</p> <p>(Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company</p> <p>(Proposed by the Audit Committee) New construction of the Company's factory and ancillary loading/unloading parking space</p> <p>(Proposed by the Audit Committee) Amendment to "Property, Plant and Equipment Cycle", "Management of Property, Plant and Equipment", "Payroll Cycle" and "Authorizing Table"</p> <p>Formulation of 2021 Audit Plan</p> <p>Amendments to the Company's "Code of Conduct"</p> <p>Amendments to Corporate Governance Best-Practice Principles</p>
The 8th Meeting of the Ninth Term	2020.11.30	(Proposed by the Audit Committee) Core Storage Electronic (Samoa) Limited, a

Term of meeting	Date	Major Resolutions of Board of Directors
		subsidiary of the Company, intends to subscribe for new shares of HOSIN Global Electronics Co., Ltd. by using its 24.41% equity interest in Hefei Core Storage Electronic Limited as consideration. Amendments to the “2021 Annual Audit Plan”
The 9th Meeting of the Ninth Term	2021.01.29	Review of the Company's new manager list (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 (Proposed by the Audit Committee) The credit line of banks for the Company (Proposed by the Audit Committee) The credit line of foreign exchange and derivatives for the Company (Proposed by the Audit Committee) Amendment to "Rules of Procedure for Board Meeting" (Proposed by the Audit Committee) Amendment to "Duty Scope of Independent Director" (Proposed by the Audit Committee) Amendment to "Procedures for Halt and Resumption Applications" (Proposed by the Audit Committee) Amendment to "Management Operation of Avoiding Insider Trading" and "Auditing Procedures of the Insider Trading" (Proposed by the Audit Committee) Amendment to "Authorizing Table" The Company proposed to evaluate the CPA independence and suitability
The 10th Meeting of the Ninth Term	2021.03.11	(Proposed by the Audit Committee) Remuneration distribution for employees and directors, supervisors for 2020

Term of meeting	Date	Major Resolutions of Board of Directors
		(Proposed by the Audit Committee) 2020 Business Report and Financial Statements.
		(Proposed by the Audit Committee) Earnings Distribution Table for 2020
		(Proposed by the Audit Committee) 2020 Statement of Internal Control System.
		(Proposed by the Audit Committee) The Company decides the private placement of common shares in 2020 regular meeting of shareholders and plans not to handle offering and issuance
		(Proposed by the Audit Committee) Amendments to the "Procedures for Acquisition or Disposal of Assets," "Derivative Commodity Transaction Processing Procedures," "Procedures for Loaning of Funds to Others," and "Procedures for Making of Endorsements/Guarantees."
		(Proposed by the Audit Committee) Private placement for common shares of the Company
		(Proposed by the Audit Committee) Operation plan of the Company for 2021
		(Proposed by the Audit Committee) Amendment to the Company's "Production Cycle" and "Authorizing Table"
		(Proposed by the Audit Committee) Amendment to the Company's "Articles of Incorporation"
		(Proposed by the Audit Committee) Amendment to the Company's "Articles of Procedures of Election of Directors" (formerly known as the "Procedures of Election of Directors and Supervisors")
		(Proposed by Audit Committee) Amendment to the Company's "Code of Conduct" (formerly known as the "Code of Conduct for Directors, Supervisors and Managers")
		(Proposed by Audit Committee) Amendment to " Regulations for Remuneration Committee"

Term of meeting	Date	Major Resolutions of Board of Directors
		(Proposed by the Audit Committee) Appointment and compensation to CPAs who provides audit service for the year of 2021
		(Proposed by the Audit Committee) The Company replaces CPAs cooperating with the internal adjustment mechanism of Deloitte Touche Tohmatsu Limited
		(Proposed by the Remuneration Committee) Review the bonus amount of profit payment to directors, supervisors and amount and method rewarded to employees who assume as directors, managers concurrently in employee remuneration
		The Company convened the 2021 annual shareholders' meeting

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

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

April 27, 2021

Position	Name	Date of Assumption of Duty	Date of Dismissal	Reasons for Resignation or Dismissal
Accounting and Finance Director	Shu Hua Chiu	2011/03/24	2020/03/27	Job adjustment

3.5 Information Regarding the Company's Audit Fee and Independence

Accounting Firm	Name of CPA		Audit period	Remarks
Deloitte Touche Tohmatsu Limited	Xin Wei Dai	Li Wen Kuo	2020/1/1 - 2020/12/31	None

Unit: NT\$ thousand

Fee Range		Fee Items	Audit fee	Non-audit fee	Total
1	Under NT\$2,000 thousand				
2	NT\$2,000 thousand (inclusive) - NT\$4,000 thousand			2,323	2,323
3	NT\$4,000 thousand (inclusive) - NT\$6,000 thousand				
4	NT\$6,000 thousand (inclusive) - NT\$8,000 thousand		7,300		7,300
5	NT\$8,000 thousand - NT\$10,000 thousand				
6	Over NT\$10,000 thousand (inclusive)				

3.5.1 If the non-audit fee for the CPAs, the Firm and the affiliates is more than one-fourth of audit fee, amount and service of non-audit fee shall be disclosed:

Unit: NT\$ thousand

Accounting Firm	Name of CPA	Audit fee	Non-audit fee					Audit Period	Remarks
			System Design	Business registration	Human Resource	Miscellaneous	Subtotal		
Deloitte Touche Tohmatsu Limited	Xin Wei Dai Li Wen Kuo	7,300	0	0	0	2,323	2,323	2020/1/1 - 2020/12/31	[Note]

[Note] Non audit expenses – Other Major Payments: Order transfer report, country-by-country report and other expense etc.

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 10%, the amount of audit fee, ratio and the reasons should be disclosed: Not applicable.

3.6 Replacement of CPA: None.

3.6.1 About the former CPA: N/A.

3.6.2 About the successor CPA: N/A.

3.6.3 Where the former CPA holds different opinions about the sending of letter of stipulated matters in 10.6.1 and 10.6.2.3 in the Regulations Governing Information to be Published in Annual Reports of Public Companies to the former CPA, and notification of CPAs, the reply shall be made within ten days. The Company shall disclose the reply of the former CPA: N/A.

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

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

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

Position	Name	2020		Up to March 31, 2021	
		Shareholding Increase (Decrease)	Pledged Holding Increase (Decrease)	Shareholding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director/CEO	Khein Seng Pua	0	0	0	0
Director/President	Chee Kong Aw Yong	108,000	0	0	0
Director/Vice President	Tzung Horng Kuang	5,000	0	0	0
Director/Director Chenghe Investment Co., Ltd. Representative/Technical VicePresident	Chih Jen Hsu	0	0	0	0
Director	Chenghe Investment Co., Ltd. [Note 2]	191,000	0	0	0
Director/Major shareholders	KIOXIA Corporation	0	0	0	0
Directot KIOXIA Corporation Representative	Hiroto Nakai [Note 3]	0	0	N/A	
Directot KIOXIA Corporation Representative	Hiroshi Miyauchi [Note 3]	0	0	0	0
Independent Director	Shu Fen Wang [Note 4]	0	0	N/A	
Independent Director	Chen Wei Wang	0	0	0	0
Independent Director	Wen Chiu Chung [Note 5]	0	0	0	0
Independent Director	Yu Lun Huang [Note 6]	0	0	0	0
Supervisor	Huei Mei Wang [Note 7]	0	0	N/A	

Position	Name	2020		Up to March 31, 2021	
		Shareholding Increase (Decrease)	Pledged Holding Increase (Decrease)	Shareholding Increase (Decrease)	Pledged Holding Increase (Decrease)
Supervisor/Director	Jiunn Yeong Yang	0	0	0	0
Supervisor	Chiun Hsiou Chen [Note 6]	0	0	N/A	
Vice President	Yeou Long Sheng [Note 9]	0	0	N/A	
Vice President	Wee Kuan Gan	0	0	(5,000)	0
Director of Sales & Marketing Division 1	Shu Hui Tsai	6,000	0	0	0
Director of Sales & Marketing Division 2	Huei Chen Tsay	0	0	0	0
Director of Sales & Marketing Division 3	Li Fu Huang	0	0	0	0
Director of R&D Division 1	Kuo Yi Cheng	(35,000)	0	0	0
Director of R&D Division 2	Chung Hsun Ma	0	0	0	0
Director of R&D Division 5	Jui Chieh Lin [Note 10]	0	0	N/A	
Director of R&D Division 6	Ching Wen Chan	0	0	0	0
Director of R&D Division 8	Chieh Chuan Chin [Note 11]	0	0	N/A	
Director of Administration Division	Liu Hsiu Chin	0	0	0	0
Director of Finance Division	Shu Hua Chiu	0	0	0	0
Finance Officer and Accounting Officer	Pao Feng Chen [Note 12]	0	0	0	0
Chief Operating Officer and Senior Special Assistant	Zhi Chyang Yu [Note 13]	N/A		0	0

[Note 1] The Company re-elected its directors and established the Audit Committee to replace the Board of Supervisors on June 3, 2020.

[Note 2] Chenghe Investment Co., Ltd. took office since June 3, 2020.

[Note 3] Director KIOXIA Corporation reassigned legal representative director from Hiroto Nakai to Hiroshi Miyauchi on November 13, 2020.

[Note 4] Shu Fen Wang served as an Independent Director until June 3, 2020.

[Note 5] Wen Chiu Chung served as an Independent Director since June 3, 2020.

[Note 6] Yu Lun Huang served as an Independent Director since June 3, 2020.

[Note 7] Huei Ming Wang served as a Supervisor until June 3, 2020.

[Note 8] Chiun Hsiou Chen served as a Supervisor until June 3, 2020.

[Note 9] Vice President Yeou Long Sheng had resigned on December 31, 2020.

[Note 10] Director of Division Jui Chieh Lin had resigned on December 4, 2020.

[Note 11] Director of Division Chieh Chuan Chin had resigned on July 31, 2020.

[Note 12] Pao Feng Chen served as a Finance Officer and Accounting Officer since March 27, 2020.

[Note 13] Zhi Chyang Yu served as a Chief Operating Officer since February 6, 2021.

3.8.2 Shares Trading with Related Parties: None.

3.9 Relationship among the Top Ten Shareholders

As of March 30, 2021

Name	Current Shareholding		Spouse's/Minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees of Kinship		Remarks
	Number of Shares (Shares)	Shareholding (%)	Number of Shares (Shares)	Shareholding (%)	Number of Shares (Shares)	Shareholding (%)	Name	Relation	
Trusted Investment Account of KIOXIA Corp. by First Bank	19,821,112	10.06	N/A	N/A	1,000	0.00	None	None	None
Representative: Hiroshi Miyauchi	0	0.00	0	0.00	0	0.00	None	None	None
Trusted Investment Account of Aberdeen Asset Management PLC by HSBC Staff Provident Fund	5,871,000	2.98	N/A	N/A	N/A	N/A	None	None	None
Fubon Life Insurance Co., Ltd. Responsible person: Richard M. Tsai	5,410,000	2.75	N/A	N/A	N/A	N/A	None	None	None
	No information accessible						None	None	None
Khein Seng Pua	4,557,972	2.31	806,262	0.41	4,534,144	2.30	None	None	None
Jiunn Yeong Yang	4,549,114	2.31	0	0.00	0	0.00	None	None	None
Chee Kong Aw Yong	3,463,745	1.76	36,000	0.02	203,000	0.10	None	None	None
Yuanta Taiwan High-yield Leading Company Fund	2,852,000	1.45	N/A	N/A	N/A	N/A	None	None	None
Norges Bank - internal - NBIM PF EQ INTERNAL CFD	2,754,504	1.40	N/A	N/A	N/A	N/A	None	None	None
Chenghe Investment Co., Ltd. Responsible person: Khein Seng Pua	2,363,000	1.20	N/A	N/A	N/A	N/A	None	None	None
	4,557,972	2.31	806,262	0.41	4,534,144	2.30	Khein Seng Pua	Company Responsible person	None
Hon Wai Ng	2,315,375	1.18	11,561	0.01	0	0.00	None	None	None

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

Date: December 31, 2020 Unit: share, %

Name of the Investment Company	Name of be Reinvested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company		Consolidated Investment	
		Shares	Shareholding (%)	Shares	Shareholding (%)	Shares	Shareholding (%)
The Company	Emtops Electronics Corporation	38,000,000	100.00	0	0.00	38,000,000	100.00
The Company	Lian Xu Dong Investment Corporation	65,000,000	100.00	0	0.00	65,000,000	100.00
The Company	Microtops Design Corporation	2,263,800	49.00	2,356,200	51.00	4,620,000	100.00
The Company	Phison Electronics Japan Corp.	2,000	100.00	0	0.00	2,000	100.00
The Company	Global Flash Limited	22,100,000	100.00	0	0.00	22,100,000	100.00
The Company	EpoStar Electronics (BVI) Corporation	10,600,000	37.82	0	0.00	10,600,000	37.82
The Company	Phisontech Electronics Taiwan Corp.	55,000,000	100.00	0	0.00	55,000,000	100.00
The Company	Power Flash (Samoa) Limited	3,200,000	100.00	0	0.00	3,200,000	100.00
The Company	Everspeed Technology Limited	1,000,000	100.00	0	0.00	1,000,000	100.00
The Company	Regis Investment (Samoa) Limited	21,900,000	100.00	0	0.00	21,900,000	100.00
The Company	ProGrade Digital Inc.	2,785,000	32.01	0	0.00	2,785,000	32.01
The Company	Nextorage Corporation	5,880	49.00	0	0.00	5,800	49.00
Lian Xu Dong Investment Corporation	Ostek Corporation	900,000	100.00	0	0.00	900,000	100.00
Emtops Electronics Corporation	Phison Technology Inc.	3,000,000	100.00	0	0.00	3,000,000	100.00
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	34,842,595	100.00	0	0.00	34,842,595	100.00

Name of the Investment Company	Name of be Reinvested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company		Consolidated Investment	
		Shares	Shareholding (%)	Shares	Shareholding (%)	Shares	Shareholding (%)
Global Flash Limited	Core Storage Electronic (Samoa) Limited	19,150,000	100.00	0	0.00	19,150,000	100.00
Power Flash (Samoa) Limited	Power Flash (HK) Limited	3,000,000	100.00	0	0.00	3,000,000	100.00
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	[Note 1]	24.41	0	0.00	[Note 1]	24.41
Everspeed Technology Limited	Memoryexchange Corporation	20,950,000	100.00	0	0.00	20,950,000	100.00
Regis Investment (Samoa) Limited	RealYou Investment Limited	21,850,000	100.00	0	0.00	21,850,000	100.00
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	[Note 2]	100.00	0	0.00	[Note 3]	100.00
Hefei Ruhan Electronic Technology Limited	Hefei Xinpeng Technology Co., Ltd.	[Note 3]	24.23	0	0.00	[Note 3]	24.23
RealYou Investment Limited	HOSIN Global Electronics Co., Ltd.	50,000,000	16.47	0	0.00	50,000,000	16.47
Core Storage Electronic (Samoa) Limited	HOSIN Global Electronics Co., Ltd.	54,500,000	17.96	0	0.00	54,500,000	17.96

[Note 1] Investment of CNY 54,095,000/NT\$630,990 thousands.

[Note 2] Investment of CNY 40,800,000/NT\$182,825 thousands.

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

Chapter 4

Capital Overview



Chapter 4 Capital Overview

4.1 Capital and Shares

4.1.1 Source of capital

4.1.1.1 Issued Shares

Unit: NT\$, share

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

Year and month	Issue price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Number of Shares (Shares)	Amount (NT\$ thousands)	Number of Shares (Shares)	Amount (NT\$)	Source of capital	Capital increased by assets other than cash	Other
2007.08	10	130,000	1,300,000	100,180,261	1,001,802,610	Capital increased by surplus: NT\$217,731,370 and capital increased by employee stock option: NT\$18,300,000	None	Note 18
2007.11	239	130,000	1,300,000	101,180,261	1,011,802,610	Private common stock NT\$10,000,000	None	Note 19
2008.06	128	130,000	1,300,000	102,380,261	1,023,802,610	Private common stock NT\$12,000,000	None	Note 20
2008.06	165	130,000	1,300,000	104,480,261	1,044,802,610	Private common stock NT\$21,000,000	None	Note 20
2008.09	10	130,000	1,300,000	126,766,313	1,267,663,130	Capital increased by surplus: NT\$222,860,520	None	Note 21
2009.03	53	180,000	1,800,000	128,466,313	1,284,663,130	Private common stock NT\$17,000,000	None	Note 22
2009.05	117.5	180,000	1,800,000	134,066,313	1,340,663,130	Private common stock NT\$56,000,000	None	Note 23
2009.08	10	180,000	1,800,000	146,727,286	1,467,272,860	Capital increased by surplus: NT\$126,609,730	None	Note 24
2010.02	10	180,000	1,800,000	147,264,786	1,472,647,860	Capital increased by employee stock option: NT\$5,375,000	None	Note 25
2010.05	10	180,000	1,800,000	147,517,286	1,475,172,860	Capital increased by employee stock option: NT\$2,525,000	None	Note 26
2010.07	10	180,000	1,800,000	147,537,286	1,475,372,860	Capital increased by employee stock option: NT\$200,000	None	Note 27
2010.08	10	230,000	2,300,000	177,040,743	1,770,407,430	Capital increased by surplus: NT\$295,034,570	None	Note 28
2010.11	10	230,000	2,300,000	177,078,743	1,770,787,430	Capital increased by employee stock option: NT\$380,000	None	Note 29
2011.01	10	230,000	2,300,000	177,360,243	1,773,602,430	Capital increased by employee stock option: NT\$2,815,000	None	Note 30
2011.05	10	230,000	2,300,000	178,526,243	1,785,262,430	Capital increased by employee stock option: NT\$11,660,000	None	Note 31
2011.07	10	230,000	2,300,000	178,633,743	1,786,337,430	Capital increased by employee stock option: NT\$1,075,000	None	Note 32
2011.10	10	230,000	2,300,000	178,753,243	1,787,532,430	Capital increased by employee stock option: NT\$1,195,000	None	Note 33
2012.01	10	230,000	2,300,000	178,832,743	1,788,327,430	Capital increased by employee stock option: NT\$795,000	None	Note 34
2012.05	10	230,000	2,300,000	180,021,743	1,800,217,430	Capital increased by employee stock option: NT\$11,890,000	None	Note 35
2012.08	10	230,000	2,300,000	180,025,743	1,800,257,430	Capital increased by employee stock option: NT\$40,000	None	Note 36
2012.11	10	230,000	2,300,000	180,162,243	1,801,622,430	Capital increased by employee stock option: NT\$1,365,000	None	Note 37
2013.02	10	230,000	2,300,000	180,473,993	1,804,739,930	Capital increased by employee stock option: NT\$3,117,500	None	Note 38
2014.07	10	230,000	2,300,000	185,473,993	1,854,739,930	Private common stock NT\$50,000,000	None	Note 39
2015.03	10	230,000	2,300,000	197,373,993	1,973,739,930	Private common stock NT\$119,000,000	None	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	None	Note 41
2019.06	10	280,000	2,600,000	197,073,993	1,970,739,930	None	None	Note 42
2020.07	10	300,000	3,000,000	197,073,993	1,970,739,930	None	None	Note 43

- [Note 01] This capital increase was approved by the Ministry of Economic Affairs on November 8, 2000 with Letter No. Chung 89521752.
- [Note 02] This capital increase was approved by the Ministry of Economic Affairs on March 25, 2002 with Letter No. Chung 09131849090.
- [Note 03] This capital increase was approved by the Ministry of Economic Affairs on May 23, 2002 with Letter No. Chung 09132153980.
- [Note 04] This capital increase was approved by the Ministry of Economic Affairs on January 28, 2003 with Letter No. Chung 09231612830.
- [Note 05] This capital increase was approved by the Ministry of Economic Affairs on April 28, 2003 with Letter No. Chung 09201127820.
- [Note 06] This capital increase was approved by the Ministry of Economic Affairs on August 4, 2003 with Letter No. Chung 09232463150.
- [Note 07] This capital increase was approved by the Ministry of Economic Affairs on August 26, 2004 with Letter No. Chung 09332620870.
- [Note 08] This capital increase was approved by the Ministry of Economic Affairs on November 12, 2004 with Letter No. Chung 09333010190.
- [Note 09] This capital increase was approved by the Ministry of Economic Affairs on January 18, 2005 with Letter No. Chung 09431571170.
- [Note 10] This capital increase was approved by the Ministry of Economic Affairs on April 18, 2005 with Letter No. Chung 09431980500.
- [Note 11] This capital increase was approved by the Ministry of Economic Affairs on August 31, 2005 with Letter No. Chung 09432758570.
- [Note 12] This capital increase was approved by the Ministry of Economic Affairs on November 8, 2005 with Letter No. Shan 09401222320.
- [Note 13] This capital increase was approved by the Ministry of Economic Affairs on February 16, 2006 with Letter No. Shan 09501027990.
- [Note 14] This capital increase was approved by the Ministry of Economic Affairs on May 22, 2006.05.22 with Letter No. Shan 09501093420.
- [Note 15] This capital increase was approved by the Ministry of Economic Affairs on August 8, 2006 with Letter No. Shan 09501172160.
- [Note 16] This capital increase was approved by the Ministry of Economic Affairs on January 12, 2007 with Letter No. Shan 09601006390.
- [Note 17] This capital increase was approved by the Ministry of Economic Affairs on July 4, 2007 with Letter No. Shan 09601142790.
- [Note 18] This capital increase was approved by the Ministry of Economic Affairs on August 27, 2007 with Letter No. Shan 09601209920.
- [Note 19] This capital increase was approved by the Ministry of Economic Affairs on November 16, 2007 with Letter No. Shan 09601280340.
- [Note 20] This capital increase was approved by the Ministry of Economic Affairs on June 30, 2008 with Letter No. Shan 09701153220.
- [Note 21] This capital increase was approved by the Ministry of Economic Affairs on September 2, 2008 with Letter No. Shan 09701224760.
- [Note 22] This capital increase was approved by the Ministry of Economic Affairs on March 6, 2009 with Letter No. Shan 09801042190.
- [Note 23] This capital increase was approved by the Ministry of Economic Affairs on May 22, 2009 with Letter No. Shan 09801102570.

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

4.1.1.2 Type of Stock

Date: March 30, 2021, In shares

Type of Stock	Authorized capital			Remarks
	Issued shares	Unissued shares	Total	
Common stock	197,073,993	102,926,007	300,000,000	197,073,993 shares are listed in TPEX shares

4.1.2 Shareholder Structure

Date: March 30, 2021, In shares and %

Shareholder Structure	Government agencies	Financial institutions	Other institutional shareholders	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	2	32	308	30,712	647	31,701
Current shareholding	476,000	9,924,681	17,057,076	73,610,140	96,006,096	197,073,993
Shareholding (%)	0.24	5.04	8.66	37.35	48.71	100.00

4.1.3 Shareholding Distribution Status

Date: March 30, 2021, In shares

Shareholding range	Number of shareholders	Current shareholding	Shareholding (%)
1 to 999	13,928	1,156,083	0.58
1,000 to 5,000	15,100	25,373,160	12.87
5,001 to 10,000	1,250	9,728,087	4.93
10,001 to 15,000	381	4,920,157	2.49
15,001 to 20,000	286	5,221,943	2.65
20,001 to 30,000	235	5,942,473	3.02
30,001 to 50,000	164	6,577,075	3.34
50,001 to 100,000	156	10,849,130	5.51
100,001 to 200,000	84	12,290,237	6.24
200,001 to 400,000	58	16,488,841	8.37
400,001 to 600,000	15	7,739,987	3.93
600,001 to 800,000	11	7,681,364	3.90
800,001 to 1,000,000	8	7,106,262	3.61
> 1,000,001	25	75,999,194	38.56
Total	31,701	197,073,993	100.00

[Note 1] All the shares of the Company are common stocks, no preferred stock is issued.

4.1.4 List of Major Shareholders

Date: March 30, 2021, In shares

Shareholder's name	Shareholding	Current shareholding	Shareholding (%)
Trusted Investment Account of KIOXIA Corp. by First Bank		19,821,112	10.06
Trusted Investment Account of Aberdeen Asset Management PLC by HSBC Staff Provident Fund		5,871,000	2.98
Fubon Life Insurance Co., Ltd.		5,410,000	2.75
Khein Seng Pua		4,557,972	2.31
Jiunn Yeong Yang		4,549,114	2.31
Chee Kong Aw Yong		3,463,745	1.76
Yuanta Taiwan High-yield Leading Company Fund		2,852,000	1.45
Norges Bank - internal - NBIM PF EQ INTERNAL CFD		2,754,504	1.40
Chenghe Investment Co., Ltd.		2,363,000	1.20
Hon Wai Ng		2,315,375	1.18

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

Unit: NT\$

Item		Year	2019	2020
Market price per share	Highest	Before retrospective application	348.00	365.50
		After retrospective application	348.00	365.50
	Lowest	Before retrospective application	222.00	196.50
		After retrospective application	222.00	196.50
	Average [Note 1]	Before retrospective application	296.93	299.38
		After retrospective application	296.93	299.38
Net worth per share	Before distribution		148.11	178.39
	After distribution		135.11	-
Earnings per share	Weighted average shares (thousand shares)		197,074	197,074
	Earnings per share	Before retrospective application	23.05	44.14
		After retrospective application	-	-
Dividends per share	Cash dividends		13.00	23.00 [Note 6]
	Free allotment	Dividends from retained earnings	0.00	0.00
		Dividends from capital surplus	0.00	0.00
	Cumulative unpaid dividends		0.00	0.00
Return on investment	Price/Earnings Ratio [Note 3]		12.88	6.78
	Price/Earnings Ratio [Note 4]		22.84	13.02
	Cash Dividend Yield Rate (%) [Note 5]		4.38	7.68

[Note 1] Average market price per share is calculated according to the annual turnover value and volume.

[Note 2] Adopting IFRS (consolidated statements).

[Note 3] P/E 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 2021 shareholders' meeting.

4.1.6 Dividend Policy and Implementation Status

1. Dividends Policy on the Articles of Incorporation of the corporation:

Based on Phison's Article 19.1 of the Company, if there is net profit in the final financial statements, after offsetting any loss from prior year(s), 10% of the profit should be appropriated into capital reserve, however, if the capital reserve is up to the paid-in capital, this requirement is not applicable. In accordance with law or the competent authority, the Company shall also appropriate or reverse special reserves. The remaining surplus, together with unappropriated retained earnings would be reversed appropriately by the Board of Directors based on actual operating conditions, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification. The Company's dividend distribution policy shall consider the Company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of the shareholders.

2. Distribution of Dividends Proposed in the Shareholders' Meeting:

The surplus distribution of 2020 has been approved by the Board of Directors on March 11, 2021 and will submit this surplus distribution to 2021 shareholders' meeting. The Board of Directors plans to cash distribute NT\$4,532,701,839 (NT\$23 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 March 11, 2021 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.

3. Anticipated material changes in dividend policy: None.

4.1.7 Effects of the dividends distribution on the operation performance and EPS of the Company: Not applicable.

4.1.8 Compensation for Employees, Directors and Supervisors

1. Percentage or range of employee, Director, and Supervisor remuneration as set forth in the Company's Articles of Incorporation

According to Article 19 of the Articles of Incorporation of the Company, "If the Company makes profits in the year, it shall appropriate 8% to 19% for employees'

compensation and no more than 1.5% for directors and supervisors' compensations." But the Company shall reserve a portion of profit to make up for accumulated losses, if any. Employee's remuneration may be distributed in shares or cash, and compensation of directors shall be paid in cash. The term "profit" as "pre-tax profits before deducting the distributed employees and directors' remuneration." Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of the attending directors approve. The remuneration resolution shall be reported in the annual general meeting.

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 2020.

- (1) Basis of the 2020 Cash Remuneration for Employees, Directors and Supervisors:

The profit of the Company in 2020 is NT\$10,349,255,916 (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\$1,000,000,000 in total 9.66% of the profit) and the directors/supervisors (NT\$45,000,000 in total 0.43% of the profit). The remuneration will be rewarded in cash.

- (2) Basis of the Stock Remuneration for Employees: there is no stock remuneration in 2020.

- (3) Difference is Adjusted by Accounting Principles: if difference exists between the actual allocation amount and estimated number, it shall be treated based on accounting estimation changes and adjusted and recorded in the account in the following year. There is no difference in the 2020 employees, Directors' and Supervisors' actual remuneration and estimated amount for the year of recognized expense.

3. Proposed compensation approved by the Board of Directors

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

On March 11, 2021, the Board of Directors passed the resolution of 2020 remunerations to employees, directors, and supervisors, among which NTD1,000,000 thousand was distributed to employee remuneration and NTD45,000 thousand to director and supervisor remuneration. If there is any discrepancy

between the actual amount and the estimated amount recognized in the fiscal year, the discrepancy shall be handled according to the changes in accounting estimate, and shall be settled into account in the following year.

(2) Amount of stock distributed as employee compensation and as a percentage to net income of parent company only or individual financial statements after-tax and to aggregate compensation to employees: There is no employee compensation in the form of stock for 2020.

4. Information of distribution of compensation of employees, directors, and supervisors for the previous year, and, if there are any discrepancies between the actual distribution and the recognized employee, director, or supervisor compensation, and the discrepancy, cause, and its treatment:

Employee remuneration and supervisor and director actual distribution for 2019

Unit: NT\$

Distribution Item	Amounts approved in shareholders' meetings	Annual amount estimate recognition	Difference	Reasons for discrepancy and processing method
Employee Bonus	650,000,000	650,000,000	0	None
Remunerations of the Directors and Supervisors	35,000,000	35,000,000	0	

4.1.9 Repurchase of shares by the Company: None.

4.2 Status of Corporate Bonds: None.

4.3 Status of Preferred Stocks: None.

4.4 Status of Global Depository Receipts: None.

4.5 Status of Employee Stock Option Plan:

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

Date: April 27, 2021

Category of employee stock option	First employee stock options in 2019		First employee stock options in 2020	
Date of effective registration	November 22, 2019		April 10, 2020	
Date of issuance (treatment)	(First issuance) December 30, 2019	(Second issuance) October 5, 2020	(First issuance) October 5, 2020	Not issued
Number of Options Granted	6,000,000 units	2,000,000 units	6,000,000 units	2,000,000 units
Ratio of subscription shares to total issued and outstanding shares (%)	Cancelled [Note 1]	1.01 [Note 2]	3.04 [Note 2]	In compliance with the regulations, it cannot be issued after April 9 2021.
Option Duration	3 years			
Method for exercising the warrant	Issued by new stocks			
Conditional conversion periods and percentages (%)	Two years after the employee stock option was issued, 50% of the option can be traded. Two and half years after the employee stock option was issued, 100% of the option can be traded. The option is restricted when the preceding term overlaps with the book closure date.			
Converted shares	Cancelled [Note 1]	0	0	
Exercised amount		0	0	
Number of shares yet to be converted		2,000,000 units	6,000,000 units	
Subscription price per share of the unsubscribed shares		NT\$262.00	NT\$262.00	
Proportion of unexecuted subscription quantity in total shares issued (%)		1.01 [Note 2]	3.04 [Note 2]	
Impact to shareholders' equity		The employee stock options are exercisable after 2 years from the date of issuance, and the cumulative maximum exercise ratios are 50% after 2 years and 100% after 2.5 years, respectively. The stock options are exercisable in proportions after 2 years, and the total number of issued shares of the Company is gradually increased and the increase ratio is low, and the possible dilution ratio to the original shareholders' shares is gradually diluted, so the dilution effect is still limited.		

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

[Note 2] The second issuance of employee stock options in 2019 and the first issuance of employee options in 2020 are based on the total number of 197,073,933 shares outstanding as of April 27, 2021.

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

4.5.2.1 First employee stock options in 2019 (Second issuance):

Date: April 27, 2021,; Unit: NT\$

	Position	Name	Number of options shares	Ratio (%) of subscription number obtained in total issued shares [Note 2]	Options exercised				Options unexercised			
					Shares exercised	Subscription price [Note 1]	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares [Note 2]	Shares exercised	Subscription price [Note 1]	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares [Note 2]
Managerial officers	CEO	Khein Seng Pua	375,000	0.19	0	0	0	0.00	375,000	262.00	0	0.19
	President	Chee Kong Aw Yong										
	Vice President	Tzung Horng Kuang										
	Vice President	Wee Kuan Gan										
	Vice Technical President	Chih Jen Hsu										
	Director	Shu Hua Chiu										
	Director	Hsiu Chin Liu										
	Director	Kuo Yi Cheng										
	Director	Chung Hsun Ma										
	Director	Ching Wen Chan										
	Director	Shu Hui Tsai										
	Director	Huei Chen Tsay										
	Director	Li Fu Huang										
Finance Officer and Accounting Officer	Pao Feng Chen											
Chief Operating Officer and Senior Special Assistant	Zhi Chyang Yu											
Employee	General Manager of Phison Technology Inc.	Zong Cheng Wu	294,000	0.15	0	0	0	0.00	294,000	262.00	0	0.15
	Deputy Director	Zhi Ming Chen										
	Deputy Technical Director	Qing Cong Chen										
	Deputy Manager	Shu Han Chou										
	Technical Manager	Tzu Chia Huang										
	Manager	Ping Wei Yi										
	Manager	Ming Chien Huang										
	Manager	Jen Chu Wu										
	Manager	Sheng Wen Chen										
Deputy Manager	Kai Hsiang Yang											

[Note 1] The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2019." The second issuance date of employee stock option was October 5, 2020, with the issuance price as NT\$262.00 and the issued number of shares as 2,000,000.

[Note 2] The second issuance of employee stock options in 2019 is based on the total number of 197,073,933 shares outstanding as of April 27, 2021.

4.5.2.2 First employee stock options in 2020 (First issuance):

Date: April 27, 2021, Unit: NT\$

	Position	Name	Number of options shares	Ratio (%) of subscription number obtained in total issued shares [Note 2]	Options exercised				Options unexercised			
					Shares exercised	Subscription price [Note 1]	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares [Note 2]	Shares exercised	Subscription price [Note 1]	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares [Note 2]
Managerial officers	CEO	Khein Seng Pua	2,401,000	1.22	0	0	0	0.00	2,401,000	262.00	0	1.22
	President	Chee Kong Aw Yong										
	Vice President	Tzung Horng Kuang										
	Vice President	Wee Kuan Gan										
	Vice Technical President	Chih Jen Hsu										
	Director	Shu Hua Chiu										
	Director	Hsiu Chin Liu										
	Director	Kuo Yi Cheng										
	Director	Chung Hsun Ma										
	Director	Ching Wen Chan										
	Director	Shu Hui Tsai										
	Director	Huei Chen Tsay										
	Director	Li Fu Huang										
	Finance Officer and Accounting Officer	Pao Feng Chen										
Chief Operating Officer and Senior Special Assistant	Zhi Chyang Yu											
Employee	General Manager of Phison Technology Inc.	Zong Cheng Wu	451,000	0.23	0	0	0	0.00	451,000	262.00	0	0.23
	Deputy Director	Chang Guang Lin										
	Deputy Director	Ming Ren Liang										
	Deputy Director	Zhi Gang Ye										
	Deputy Director	Jiang Han Xu										
	Deputy Director	Zhi Ming Chen										
	Deputy Director	Xiao Dong Lin										
	Deputy Technical Director	Qing Cong Chen										
	Manager	Cheng Yi Lin										
	Senior Manager	Wei Yung Chen										
	Senior Manager	Wen Lung Cheng										

[Note 1] The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2020." The second issuance date of employee stock option was October 5, 2020, with the issuance price as NT\$262.00 and the issued number of shares as 6,000,000.

[Note 2] The first issuance of employee stock options in 2020 is based on the total number of 197,073,933 shares outstanding as of April 27, 2021.

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

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

4.6.2 Names and acquisition status of managerial officers who have acquired new restricted employee shares and of employees who rank among the top ten in the number of new restricted employee shares acquired, cumulative to the date of publication of the prospectus: Not applicable.

4.7 Status of Issuance of New Shares in Connection with Mergers and Acquisitions: In 2020 and as of the date of publication of the annual report, there is no issuance of new shares by M&A of shares of other companies.

4.8 Finance Plans and Implementation: Not applicable.

Chapter 5

Operation Overview



Chapter 5 Operations Overview

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Main areas of business operations

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

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

5.1.1.2 Proportion of main products in net operating income

Unit: NT\$ thousands

Item	2020	
	Amount	Percentage (%)
Flash memory module product	38,224,206	78.82
Integrated circuits	2,711,641	5.59
Controllers	7,371,457	15.20
Other	189,218	0.39
Total	48,496,522	100.00

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

5.1.1.3 Current Major Product (Service)

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

5.1.1.4 New products (services) to be developed

- (1) Develop a high-capacity USB3.2 Gen2x2 flash drive that supports high-speed random writing to meet the huge data transmission needs of content creators and other high-resolution audiovisual markets.
- (2) Develop SD/microSD memory cards that support high-speed random writing and comply with the SD Express specification (SD 8.0) to meet the needs of high-end mobile devices and high-resolution audio and video recording.
- (3) Develop the latest generation of UFS controller, support 3D NAND flash memory, and optimize it for the automotive storage market to meet the needs of high-speed computing such as self-driving cars.
- (4) Develop high-speed SSDs that support the latest PCIe NVMe specifications, including a new generation of PCIe Gen4 and PCIe Gen5 SSD controllers, and continue to maintain high-end technology leadership.

- (5) Develop the next-generation PCIe PHY for more detailed manufacturing processes, and continue to strengthen the field of IP licensing businesses .
- (6) Develop high-end enterprise-level SSD, support higher capacity, higher speed and fault tolerance mechanism, and cooperate with strategic partners to co-develop the new generation of enterprise SSD controllers and solutions to meet the needs of the enterprise-level storage market.
- (7) Develop a new generation of error correction modules to support high-level 3D TLC/QLC and next-generation PLC flash memory .
- (8) Continue to develop smaller, higher-capacity, and more power-saving SIP SSDs, including eMMC, UFS, and BGA SSDs that meet the automotive storage requirements to meet the high-speed storage needs of future mobile devices.
- (9) Develop SSDs that meet automotive specifications and continue to pass various automotive regulatory certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc .
- (10) Continue to develop SIP SSD suitable for various special embedded applications .

5.1.2 Industry Overview

5.1.2.1 Development status of the industry

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

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

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

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

As the NAND Flash process technology and applications are evolving rapidly, the

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

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

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

Controller for USB 3.2 mobile Drives and Products

USB 3.2 is designed for a fast transferring of audio and video data. It is 10-40 times faster than USB 2.0 and has the advantages of backward compatibility, better power management, and larger power capacity. The theoretic speed of USB 2.0 is 480Mb per second and the theoretic speed of USB 3.2 is greatly promoted to 5-20Gb per second. Therefore, for those USB 2.0 products, the maximal actual transferring speed is just 28MB ~ 30MB per second. If these products adopt USB 3.2, the transferring speed can be greatly promoted to over 1,800MB per second, which saves a lot of data transferring time. The Company is the first one to propose the USB 3.2 controllers for 4 channels and 8 channels alternating transferring, which improves the power consumption and the heat accumulation, as well as decreasing the PCB size and lowering the total cost. We have developed the USB 3.2 mobile drive with a reading speed of 400 MB per second and a writing speed of 300 MB per second. Its data accessing performance is almost the same with that of SSD and it can accommodate more than 1TB of NAND Flash in a mobile drive. We also continue to develop USB 3.2 controllers and mobile drives with a high performance/price ratio to provide more customers with convenience and performance of USB 3.2.30M

Controller Chips and Products for SD Cards

SD (Secure Digital) memory card (including microSD card) is the most used storage device in high-resolution DSLR, sports and UAV digital cameras, dashboard cameras, printers, smartphones, and tablets. In recent years, the need for high capacity cards has been increased. TLC with features of low cost and high capacity is widely used in consumer electronics. Because feature phones are gradually replaced by smartphones,

high capacity microSD cards have become more and more popular. Phison Electronics Corporation makes efforts to develop new features, support new-generation SD 6.0 specification, provide high capacity cards with better writing/reading performance. We also enter the niche market to provide products with higher value-added to satisfy the needs of premium memory cards. In addition, for the DVR and UAV cameras that need an uninterrupted recording feature, the Company has developed the special and customer-made SD/microSD solution. These products have been verified by the customers and been stably produced.

eMMC

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

UFS

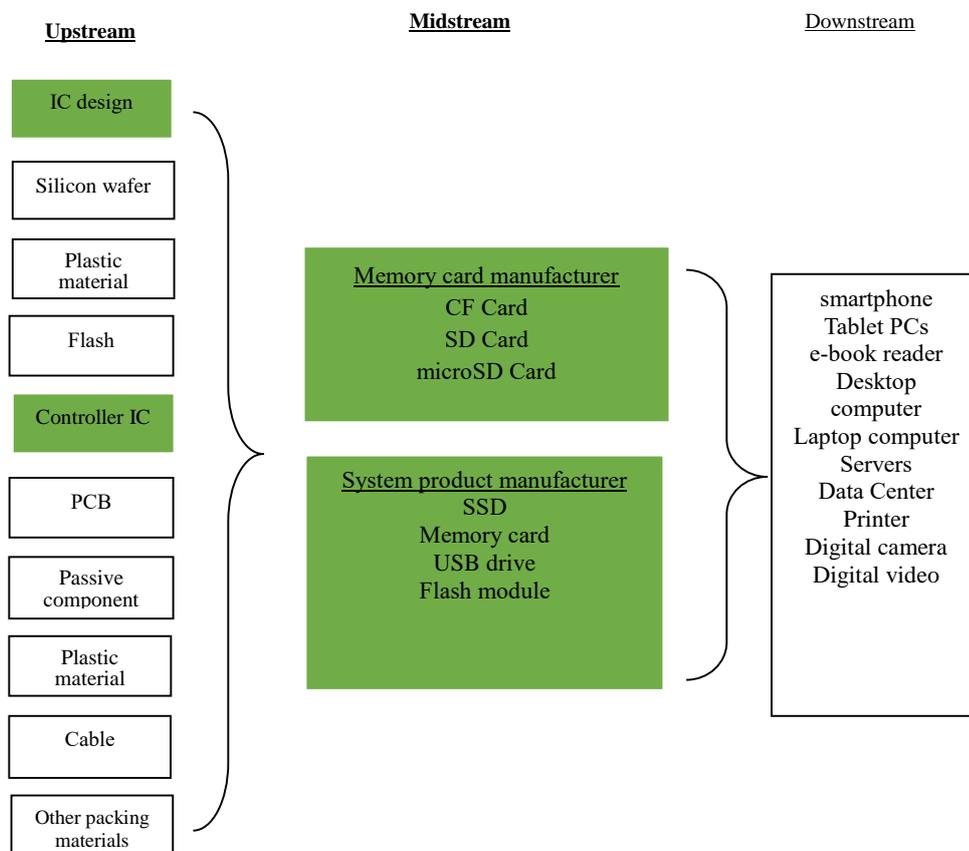
With the improvement of smartphone functions, the processors are more advanced, more applications are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. eMMC is limited due to the electrical specification of the transferring interface, so the data transferring speed is very difficult to be enhanced. Therefore, the industry has established the new interface specification UFS (Universal Flash Storage). Currently, the data transferring speed of UFS3.0 is six times faster than that of eMMC. In the future, higher speed will be developed. In addition, UFS also includes the widely-adopted SCSI structure and supports multi-thread data access, which makes good use of the memory features. The Company has completed the verification of prototype products and will continue to put resources into the development of UFS controllers and integration solutions.

SSD

All of traditional IT and electronic products used hard disks as storage media in the past, but the software and hardware in the computer industry have been developed rapidly. Currently, the speed of hard disks cannot catch up with the speed of other software and hardware, so SSD was developed to fix this problem. Unlike the magnetic disks used as the storage media in traditional hard disks, SSD uses flash memory as storage media and have the advantages of writing/reading speed, smooth use, power consumption, noise, weight, size, etc. After cloud technology and tablets are more and more popular, the need for SSD becomes more urgent. Hence, Phison Electronics Corporation has dedicated itself to develop new controllers 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 Upstream, Midstream and Downstream in this Industry

The Company focuses on the controllers of flash memory and the system products of SSD, eMMC, mobile drives and memory cards. We are in the upstream and mid-stream of this industry.



5.1.2.3 Product development trends and competition

(1) Product development trends

A. Controller:

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

b. 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.

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

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

(2) Competitions

The trend of NAND 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 holding fewer and fewer advantages, which leads to continuous market integration or individual suppliers' transformation. If the participants cannot upgrade their technology from USB2.0 mobile drives and SD card controllers to SSD, built-in memory, eMMC, and USB3.0 controllers, they have been kicked out of this industry. Phison Electronics Corporation invested lots of R&D resources to upgrade all core technologies and enter the areas of 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 a strategic alliance, vertically integrate the industry and build high/middle/low levels of SSD/eMMC/UFS product line to maintain our competitiveness.

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

5.1.3 Technology and R&D Overview

5.1.3.1 Technical level of business activities

The 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. The Company has great capability of designing controllers for flash memory and firmware, as well as the capability of integrating the technologies for system products. We can provide all things from ICs to technology solutions and have unique and premium competitiveness, which benefits our future growth in the market.

5.1.3.2 R&D of the Business

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

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

Units: NT\$ thousand, %

Year	2020
Item	
R&D expenditures	6,752,676
Net operating revenue	48,496,522
Percentage of R&D expenditures to net operating revenue	13.92%

Note: IFRS is adopted (Consolidated Statements).

5.1.3.4 Successful Technology or Products

(1) Successful R&D Projects

Year	R&D results
2019	<ul style="list-style-type: none"> ➤ Developed a lower power MIPI Gear 4 PHY as the interface for the UFS Unipro flash memory controller chip. ➤ Dveloped the world's first PCIe 4th Gen SSD whose transfer rate is over 5GB/s. ➤ Dveloped the latest generation of LDPC+DSP ECC engine, which is able to more effectively support 3D NAND data. ➤ Developed USB3.1 flash drive that supports high random write performance.

Year	R&D results
	<ul style="list-style-type: none"> ➤ Developed 2nd generation core-power management system of flash memory which simplifies the firmware operating process and increases data transfer efficiency to lower power-consumin. ➤ Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices. ➤ Developed controller chips and solutions that support 3D QLC NAND. ➤ Developed a low power-consuming RAID ECC engine for mobile devices. ➤ Developing low-power yet high performance SSD controllers by supporting HMB feature leveraging host memory buffer. ➤ Developing SiP(system-in-package) technology of flash memory module. ➤ Developed design/qualification methodologies and functional modules which comply with automotive specification to support variety of automotive applications. ➤ Developed highly integrated embedded SSD with high low latency and low WAF.
2020	<ul style="list-style-type: none"> ➤ Develop the lower power consumption MIPI Gear 4 PHY as the host interface of UFS NAND storage controller. ➤ Develop the world's only PCIe Gen 4 SSD controller PS5018-E18 with a data read/write transfer speed exceeding 7GB/s. ➤ Develop a new generation of LDPC+DSP error correction module to support 3D NAND more effectively. ➤ Develop USB3.2 flash drives that support high-speed random writing. ➤ Develop the third-generation flash memory management core circuit module to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption. ➤ Develop SD/microSD cards with high random read and write performance, which can expand the built-in flash memory capacity on mobile platforms with advanced operating systems. ➤ Develop SD memory cards that support SD Express SD7.0 specifications, and support the high-resolution audio-visual market. ➤ Develop controllers and solutions that support 3D QLC NAND and next-generation 3D PLC NAND. ➤ Develop low-power RAID error correction modules that support mobile devices. ➤ Develop high-performance SSDs that reduce overall power consumption by combining Host-side resources to meet the goal of energy saving and carbon reduction. ➤ Continue to develop SIP flash memory modules, including support for the NM card formulated by the ITMA Association, to expand the market. ➤ Develop design/verification methods and circuit function modules that meet automotive specifications to support various automotive flash memory modules, including product lines such as SD/microSD, eMMC, UFS, and BGA SSD. ➤ Develop embedded SSDs with high integration, low latency, and low write loss,

Year	R&D results
	including low-power BGA SSDs, to meet the storage needs of various mobile devices.

(2) Technology Patents of the Company:

The Company makes great efforts to develop the technologies for the flash memory application and has been successful in some critical technologies. We have 1,721 patent applications and 240 approved cases worldwide up till March 31, 2021.

5.1.4 Long-term and Short-term Business Development Plans

5.1.4.1 Short-term Business Development Plans

5.1.4.1.1 Marketing/Sales Strategy

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

5.1.4.1.2 R&D

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

5.1.4.1.3 Production

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

production and marketing cost and serve the local customers.

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

5.1.4.1.4 Management and Finance

A. We will follow the regulations of self-management and corporate governance. By trading the capital market, we will promote the company reputation and recruit excellent talents.

B. We will keep a good relationship with banks, improve the credibility check to ensure creditor's rights, and check the receipt and payment on a regular basis to improve financial status.

C. Financial structure improvement: We will continue to lower the operating cost, improve capital management, and hedge exchange rate risks. These measures can secure the financial operations and management to maximize the profit of the Company.

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

E. We will implement human management and robust systems to enhance the internal cohesion. We will improve the educational trainings to promote work efficiency and human resource.

F. Effective management of human resource and operating process: We will continue to improve the internal operation processes to promote work efficiency, work quality and human resource.

5.1.4.2 Long-term Business Development Plans

5.1.4.2.1 Marketing policy: We will continue to improve the training of salespeople, collect comprehensive market information, establish the customer service network, establish agent networks, expand the global market, and enter big economies all over the world.

5.1.4.2.2 R&D policy: We will continue to the technologies of the new generation, develop new product lines based on the needs of the market, develop products with high additional value, promote the variety and competitiveness of our products, maintain innovation capability and focus on innovation to maintain our leadership in the market of flash memory application.

5.1.4.2.3 Production policy: We will keep good relationships with the current material suppliers and foundries and seek new suppliers to reduce the risks of centralized manufacturing of Flash Memory and wafers, and strengthen the cooperation with these OEMs. Also, we will continue to use the advanced manufacturing process to cut down costs while improving the production and sales management and quality control procedures to enhance our competitiveness.

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

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Main Sales (Service) Region:

Unit: NT\$ thousands

Area \ Year	2019	2020
	Operating revenue	Operating revenue
Asia	30,003,289	33,939,905
America	10,225,567	10,534,411
Europe	4,209,463	3,865,801
Australia	254,547	151,575
Other	575	4,830
Total	44,693,441	48,496,522

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

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

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

(2) Demand/Supply/Growth in the Future

A. Supply

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

B. Demand

The application of Nand Flash is expanding as the memory chip's price is getting reasonable and multimedia and portable products become commonly used, which leads to the growing products applied with Nand Flash. Besides the current digital and 3C products adopting USBs and SD Cards, smartphones with built-in memory are also increasing. Also, SSDs with a higher reading/writing speed are applied in PCs, notebooks, and large data centers, gradually replacing hard disks. Thus, Nand flash is the most commonly applied and the most stable storage media with stable growth in the market.

C. Growth

In 2020, the sales amount of SSD controllers and products accounted for 67% of the total income, 25% higher than that in the previous year. We also developed UFS controllers for the best choice of next-generation high-performance embedded storage devices.

Our R&D team will continue to make efforts in the development of IP and the miniaturization 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. In addition, 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 with their higher stability, speed, and the cost trend that 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 product application trend, the Company will also continue to invest new manufacturing processes and new technical specifications 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 a new generation of built-in high-speed eMMC and UFS controller chips for a wide range of hand-held devices, such as smartphones 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 fulfill the market demands. We promise to promote our competitive capability and expand our market share. 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 Competitive Niche

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

The R&D team of Phison Electronics Corporation has been in the industry of NAND Flash peripheral devices and been one of the pioneers in this area. The R&D team of Phison Electronics Corporation has been in the industry of NAND Flash peripheral devices and been one of the pioneers in this area. Our R&D team is young, hard-working, creative, and fast. Since its establishment in November 2000, it has successfully developed controllers for many components, such as 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 training for R&D personnel, provide benefits to attract and keep the talents, and recruit new talents to promote experience inheritance and technology advancement, make our products more competitive, and create products with differentiation.

(2) Strong Shareholders and Strategic Alliance

In the market, there are only a few NAND Flash suppliers such as KIOXIA (Formerly known as Toshiba Memory Corporation). In addition, there are many specifications for 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, the Company made lots of efforts to develop advanced technology and new application areas. We have kept a good relationship with all Flash manufacturers and introduced strategic partner KIOXIA in 2002. KIOXIA has NAND Flash fabs, which can provide us with flash memory. KIOXIA is also the creator of Secure Digital and xD-Picture specifications and has a cross authorization of many small memory card specifications. Therefore, the partnership with big flash

memory manufacturers helps us developing all kinds of flash memory controllers. 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.

(3) Competitive Advantages of Having Design and Retailer End

The Company has developed NAND Flash controllers and designed many products, such as SSDs, NAND flash application products. Most of the assembly and production process are outsourced to other partner companies. Products are sold by the retailer channel in Taiwan or overseas retailer channels in Europe, America, Japan, etc. Other traditional IC design companies just develop chips and sell the products to the system assembly companies. Once more competitive companies join in this industry, there will be many risks, such as decreased gross profit and increased inventory. We are different from the assembly module companies, which can only make smaller profits. We stand at the two ends of design and sales with higher added values. Our business income is higher than that of IC design companies and our profit is higher than that of the assembly companies.

Therefore, we sell controllers to the famous OEM companies, such as Kioxia and Kingston. Because we are quite familiar with controllers, our module products can be developed very fast and then sell to our customers in the 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

(1) Advantages:

A. Comprehensive Fragmentation of Production in the Semiconductor Industry

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

B. Rapid Growth of SSD Market

SSDs have an excellent feature of high performance, low power consumption, and low failure rate, and the price of flash memory in SSDs is greatly reduced because of the advanced manufacturing processes. Traditional hard disks have been replaced by SSDs in a great deal of personal and cloud storage devices. The Company has developed high-performance SSD controllers supporting the third-generation SATA and PCIe NVMe and has the critical technologies to develop new

models with faster transferring speed and lower power consumption. These new products make SSDs with higher performance and lower cost. Because the SSD market is rapidly growing, the Company will rapidly satisfy the needs of the market and provide the market with more products to ensure the leadership of the Company.

C. Development of smartphones Promotes Growth of Small Memory Cards

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

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

(2) Disadvantages and Responsive Strategy:

A. Rapid Growth and More Competitors

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

B. Flash Memory in Control of Big International Suppliers

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

C. More Product Specifications

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

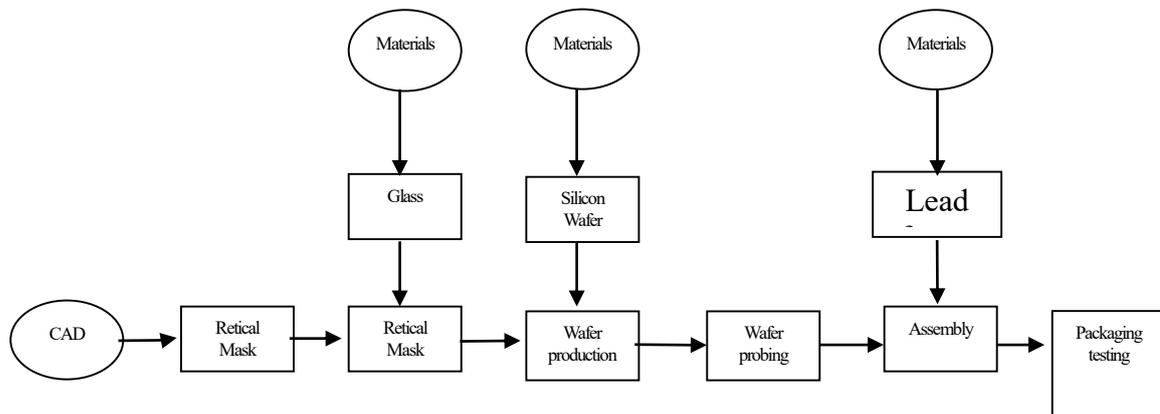
5.2.2 Important Uses of the Main Products and the Production Process

5.2.2.1 Key Applications of Main Products

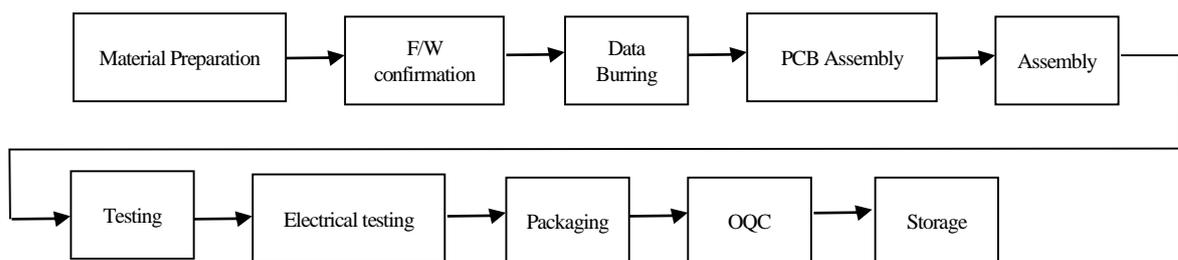
Product Category	Uses
Flash memory system products	These are the storage devices with flash memory (USB drive, flash memory card, SSD, and embedded memory). Since USB interfaces, cameras, cell phones, and laptop computers become more and more popular, these products are convenient for fast data access.
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

(1) Manufacturing Process of Controller IC



(2) Manufacturing Process of Flash Memory Reader



5.2.3 Supply of Primary Raw Materials

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

Main material	MAJOR SUPPLIERS	Supply Status
Controllers	United Microelectronics Corporation, Taiwan Semiconductor Manufacturing Company (TSMC)	Normal
Flash Memory	Kioxia, Micron, YMTC	Normal
Printed circuit boards	Taiwan Printed Circuit Board Techvest Co, Ltd., 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 have occupied more than 10% of the total amount of purchase or operating revenue in any of the past two years and the reasons for the increase or decrease:

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

(1) Information of major suppliers in the most recent two years

Unit: NT\$ thousands

Item	2019				2020			
	Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
1	Taiwan Kioxia	11,432,366	37.17	Subsidiary of a corporate member of the Corporation's board of directors	Taiwan Kioxia	9,876,557	34.64	Subsidiary of a corporate member of the Corporation's board of directors
2	A	4,237,008	13.78	None	A	5,506,727	19.31	None
	Other	15,085,357	49.05		Other	13,129,968	46.05	
	Net purchase	30,754,731	100.00		Net purchase	28,513,252	100.00	

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

(2) The reasons for the increase or decrease: The Company's major materials of products are flash memory and controllers. In 2019 and 2020, the percentages of supply from Taiwan Kioxia is 37.17% and 34.64% respectively. The percentage of supply from other Kioxia Group is 2.49% in 2020. The total purchase from Kioxia Group in 2020 is around 37.13%, that was 41.87% in 2019, decreasing clearly. The reason lies in that Kioxia adjusted part of raw material supply, in addition, to coordinate multiple requirements of raw materials of customers and strengthen cooperation with major flash memory original factories, the Company also adjusted purchase strategies to cooperate with the growth of business scale by more stable and multiple raw materials supplies.

5.2.4.2 The Customers who Have Occupied More Than 10% of the Total Amount of Purchase in Any of the Past Two Years

(1) The Major Customers in the Last Two Years

Unit: NT\$ thousands

Item	2019				2020			
	Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
1	A	5,289,287	11.83	None				
2	Other	39,404,154	88.17	None	Other	48,496,522	100.00	None
	Net sales	44,693,441	100.00		Net sales	48,496,522	100.00	

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

(2) The reasons for the increase or decrease: The percentage of net sales to Company A in 2019 was 11.83%, and the percentage of sales to Company A decreased to less than 10% in 2020 due to the increase in the increase in customer shipments of other high volume products

5.2.5 Production Volume Table in the Last Two Years

Unit: Production volume (thousand pieces)/production value (NT\$ thousands)

Year Production amount	2019			2020		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Major products						
Flash memory module product	—	149,172	26,772,067	—	134,330	29,621,334
Integrated circuits	—	55,308	2,369,250	—	40,432	1,846,455
Controllers	—	411,251	3,981,244	—	350,121	3,915,950
Other	—		139,840	—		384,283
Total		615,731	33,262,401		524,883	35,768,022

Note: The Company develops the controllers and has the outsourcing factories produce the chips or system.

Then we purchase these chips to produce Nand flash application products or directly sell them. The table only lists the Flash memory controllers that are sold directly, thus the production value (volume) is from the purchase value (volume).

5.2.6 Sales in the Last Two Years

Unit: Production volume (thousand pieces)/production value (NT\$ thousands)

Production amount		2019		2020	
		Quantity	Net operating revenue	Quantity	Net operating revenue
Flash memory module product	Domestic [Note 1]	45,470	10,511,223	44,529	11,561,132
	Overseas	104,598	23,423,708	90,701	26,663,074
Integrated circuits	Domestic [Note 1]	42,417	495,832	42,307	658,790
	Overseas	133,268	2,248,208	161,274	2,052,851
Controllers	Domestic [Note 1]	128,058	1,416,029	85,351	1,216,027
	Overseas	281,912	6,241,703	262,393	6,155,430
Others [Note 2]	Domestic [Note 1]	N/A	48,914	N/A	63,898
	Overseas	N/A	307,824	N/A	125,320
Total	Domestic [Note 1]	215,945	12,471,998	172,187	13,499,847
	Overseas	519,778	32,221,443	514,368	34,996,675

[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] IFRS is adopted (Consolidated Statements).

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

Date: March 31, 2021

Year		2019	2020	As of March 31, 2021
Number of employees	Supervisor	80	92	470
	Production line staff	93	348	348
	General employees	1,879	2,159	1,922
	Total	2,052	2,599	2,740
Average age		36.83	41.71	41.83
Average year of services		6.62	4.40	4.20
Academic distribution ratio	PhD	0.19	0.18	0.16
	Master	29.73	27.52	27.87
	University	55.45	43.69	43.36
	High school	14.15	27.57	27.48
	Below high school	0.48	1.03	1.13

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

5.4 Environmental Protection Expenditures

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

5.4.1 Loss (including indemnity) caused by environmental pollution and the total indemnity amount involved in the most recent year up to the publication date of the annual report, account of future countermeasures (including improvement actions) and possible expenditures (including loss, disposition, and an estimate of indemnity incurred by a failure to implement the countermeasure, if a reasonable estimation cannot be made, the justification shall be provided):

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

5.5 Labor Relations

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

5.5.1.1. Employee Welfare Measures:

Company:

- (1) Guaranteed salary of 12 months.
- (2) Remuneration for employees to share the profit.
- (3) Salary adjustment each year based on the work performance.
- (4) Year-end bonus of two months (Taiwan).
- (5) Incentive bonus based on the business.
- (6) No promotion barrier.
- (7) Encourage employees to make innovations and high patent bonus will be paid.
- (8) Comprehensive educational trainings and arrangement.
- (9) Encouraging employees to introduce excellent personnel and a high recruiting bonus will be paid. Labor Insurance, National Health Insurance, Pension System, Group Insurance, and Travel Insurance.
- (10) Two days off per week and flexible shift arrangement. The leave system in the Company is better than the requirement of the Labor Standards Act. Annual leave can be advanced after 3 months of service, while 8 days of annual leave will be given after one year of service.
- (11) Five days of paternity leave and three days for family with pay, 7 days a year of special leave on the anniversary of the government's commemoration of a day that is not a holiday as stipulated in the Labor Standards Law.
- (12) Nice gifts for senior employees.
- (13) Employees can advance salary for buying cars or emergency help, etc.

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

Company:

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

Welfare Committee:

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

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

5.5.1.2. Advanced Education and Trainings for Employees:

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

In 2020, the total expenditure of educational training is NT\$3,603,088. There are seven categories of training as listed below:

Category	Times	Persons	Total hours	Total expense (NT\$)
Professional Skills	137	3,127	672	290,188
Quality	118	6,078	386	2,054,156
Auxiliary Skills	7	190	37	329,699
Health and Security	44	4,527	428	175,600
Management	12	504	132	559,430
Self-inspiration	27	8,743	183	194,015
Language	8	59	210	0
Total	353	23,228	2,048	3,603,088

5.5.1.3. Pension System and its implementation:

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

- (1) If the employee chooses the pension system of the Labor Standards Act, the pension will be paid as follows. Based on the years of the service, if it is below 15 years (included), two units per full year will be paid. If it is over 15 years, each full year over the 15 years will add one unit to the pension. However, the maximum number of units is 45. The length below half a year is counted as half a year, the length over half a year but below one year is counted as one year. From Feb of 2001, 3% of the salary is appropriated into the employee pension fund. From Jul of 2016, 2% of the salary is appropriated into the employee pension fund and then transferred to the special account in the Central Trust Bureau under the name of The Supervisory Committee of Workers' Retirement Fund.
- (2) If the employee chooses the pension system of Labor Pension Statutes, the pension will be paid as follows. Employees first choose the length of service which applies to this system. From the start date to the leave date, their companies should appropriate no less than 6% of the salary into the personal pension account. In addition to the amount appropriated by the company, employees may deposit less than 6% of the salary into personal pension account. Two times of appropriation percentage change are allowed.

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

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

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

In 2020, before the publication of the annual report, the Company's labor relations are in good harmony without any disputes that cause losses. It is anticipated that there will be no such disputes in the future.

5.6 Important Contract

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

Contract Characterization	The Party	Contract Period	Content	Restriction
License Agreement	Synopsys International limited	Dated from 2003/7/16	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	SD-3C LLC	Dated from 2018/11/29 to 2028/11/28	License	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	SD Association	Dated from October 25, 2015	License	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	4C Entity LLC	From March 7, 2003	4C CPRM/CPPM IP license	Payment of royalty and annual fees
License Agreement	Netac Technology Co Ltd.	Dated from 2007/12/20 until patent of both parties expires	Cross-license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
Technical Cooperation Agreement	Intel Corporation	Dated from 2008	Cooperating to build USB 3.0 final specification	Ownership of intellectual property rights and liability of confidentiality.
License Agreement	ARM limited	Dated from 2009/08/10	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	USB Implementers Forum, Inc.	Dated from 2019/10/15	USB-IF trademark license	Member responsibility and confidentiality liability.

Contract Characterization	The Party	Contract Period	Content	Restriction
Industrial Standard Association & Membership Agreement	USB Implementers Forum, Inc.	Dated from 2019/10/4	USB-IF membership	Member responsibility and confidentiality liability.
License Agreement	Andes Technology Corp.	Dated from 2012/3/2	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
Industrial Standard Association & Membership Agreement	MIPI Alliance Inc.	Dated from 2012/04/18	Membership and related license agreement	Member responsibility and confidentiality liability.
Industrial Standard Association & Membership Agreement	Intel Corp.	Dated from 2012/08/09	Adoption of USB3.0 specification	Terms of use of USB 3.0 specification and liability of confidentiality.
Industrial Standard Association & Membership Agreement	Intel Corp.	Dated from 2019/1/14	USB technical contributor	Member responsibility and confidentiality liability.
Industrial Standard Association & Membership Agreement	Serial ATA International Organization (SATA-IO)	Dated from 2013/5/31	Authorization of certification mark	Member responsibility and confidentiality liability.
License Agreement	Cadence Design Systems (Ire) Ltd	Dated from 2013/1/1	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.
Industrial Standard Association & Membership Agreement	NVM EXPRESS, INC	Dated from 2014/4/2	Membership and related license agreement	Member responsibility and confidentiality liability.
License Agreement	PLDA Inc.	Dated from 2015/2/10	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality.

Contract Characterization	The Party	Contract Period	Content	Restriction
License Agreement	Intel Corporation	Dated from 2017/7/13	Permitted use and license of Thunderbolt trademark and IP	Compliance with the clause of permitted use, license scope and liability of confidentiality.
License Agreement	Universal Flash Storage Association, Inc.	Dated from 2018/1/18	Permitted use and license of UFSA Logo	Compliance with the terms of use of UFSA logo.
Industrial Standard Association & Membership Agreement	AUTOMOTIVE EDGE COMPUTING CONSORTIUM, INC.(AECC)	Dated from 2020/11/16	Membership and related license agreement	Member responsibility and confidentiality liability.

Chapter 6

Financial Information



Chapter 6 Financial Summary

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet and Comprehensive Income Statement

6.1.1.1. Condensed Balance Sheet-Consolidated Financial Statement

Unit: NT\$ thousands

Item	Year	Financial information in the most recent five years				
		2016	2017	2018	2019	2020
Current assets		26,755,344	28,809,687	30,605,807	31,959,839	37,326,925
Property, plant, and equipment		2,426,451	2,822,881	2,990,231	3,282,950	4,646,540
Intangible assets		222,297	218,130	152,550	268,026	313,894
Other assets		2,571,547	3,275,906	2,689,952	3,125,965	5,276,593
Total asset value		31,975,639	35,126,604	36,438,540	38,636,780	47,563,952
Current liabilities	Before distribution	8,904,060	8,963,408	9,419,631	9,306,381	11,762,682
	After distribution	11,663,096	12,313,666	11,981,593	11,868,343	[Note 1]
Non-current liabilities		73,354	104,881	107,039	141,771	645,803
Total liabilities	Before distribution	8,977,414	9,068,289	9,526,670	9,448,152	12,408,485
	After distribution	11,736,450	12,418,547	12,088,632	12,010,114	[Note 1]
Equity attributable to shareholders of the parent company		22,992,825	26,058,315	26,911,870	29,162,320	35,155,467
Share capital		1,970,740	1,970,740	1,970,740	1,970,740	1,970,740
Capital surplus		6,652,449	6,660,502	6,674,650	6,724,104	6,586,173
Retained earnings	Before distribution	14,395,601	17,390,657	18,647,407	20,643,601	26,763,895
	After distribution	11,636,565	14,040,399	16,085,445	18,081,639	[Note 1]
Other equity interest		(25,965)	36,416	(380,927)	(176,125)	(165,341)
Treasury stock		0	0	0	0	0
Non-controlling Interests		5,400	0	0	26,308	0
Total equity	Before distribution	22,998,225	26,058,315	26,911,870	29,188,628	35,155,467
	After distribution	20,239,189	22,708,057	24,349,908	26,626,666	[Note 1]

[Note 1] Distribution of earnings for 2020 has not been approved by the shareholders' meeting.

6.1.1.2. Condensed Balance Sheet -Individual Financial Statement

Unit: NT\$ thousands

Item	Year	Financial information in the most recent five years				
		2016	2017	2018	2019	2020
Current assets		25,128,170	27,076,135	28,840,540	29,491,045	34,003,761
Property, plant, and equipment		2,392,803	2,793,102	2,961,130	3,263,440	3,954,832
Intangible assets		217,763	212,108	149,381	267,339	310,269
Other assets		3,687,775	4,496,367	3,997,535	5,258,129	9,014,263
Total asset value		31,426,511	34,577,712	35,948,586	38,279,953	47,283,125
Current liabilities	Before distribution	8,360,393	8,433,967	8,943,486	8,979,663	11,679,762
	After distribution	11,119,429	11,784,225	11,505,448	11,541,625	[Note 1]
Non-current liabilities		73,293	85,430	93,230	137,970	447,896
Total liabilities	Before distribution	8,433,686	8,519,397	9,036,716	9,117,633	12,127,658
	After distribution	11,192,722	11,869,655	11,598,678	11,679,595	[Note 1]
Equity attributable to shareholders of the parent company		22,992,825	26,058,315	26,911,870	29,162,320	35,155,467
Share capital		1,970,740	1,970,740	1,970,740	1,970,740	1,970,740
Capital surplus		6,652,449	6,660,502	6,674,650	6,724,104	6,586,173
Retained earnings	Before distribution	14,395,601	17,390,657	18,647,407	20,643,601	26,763,895
	After distribution	11,636,565	14,040,399	16,085,445	18,081,639	[Note 1]
Other equity interest		(25,965)	36,416	(380,927)	(176,125)	(165,341)
Treasury stock		0	0	0	0	0
Non-controlling Interests		0	0	0	0	0
Total equity	Before distribution	22,992,825	26,058,315	26,911,870	29,162,320	35,155,467
	After distribution	20,233,789	22,708,057	24,349,908	26,600,358	[Note 1]

[Note 1] Distribution of earnings for 2020 has not been approved by the shareholders' meeting.

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

6.1.1.3. Condensed Comprehensive Income Statement-
Consolidated Financial Statement

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

Item \ Year	Financial information in the most recent five years				
	2016	2017	2018	2019	2020
Operating revenue	43,782,512	41,864,759	40,788,105	44,693,441	48,496,522
Operating gross profit	9,263,738	11,499,622	9,131,954	11,149,275	12,247,475
Operating profit (loss)	4,842,648	6,731,692	4,709,784	5,210,013	3,889,607
Non-operating revenue and expenses	634,278	(13,822)	295,397	140,921	5,803,822
Net income before tax	5,476,926	6,717,870	5,005,181	5,350,934	9,693,429
Net income from continuing operations	4,801,843	5,761,290	4,318,119	4,545,837	8,706,751
Loss from discontinued operations	0	0	0	0	0
Net income (loss) for the period	4,801,843	5,761,290	4,318,119	4,545,837	8,706,751
Other comprehensive income (loss) for the period (Net value after tax)	82,863	57,409	(171,742)	218,500	22,503
Total comprehensive income for the period	4,884,706	5,818,699	4,146,377	4,764,337	8,729,254
Net income attributable to shareholders of the parent company	4,866,992	5,760,972	4,318,119	4,543,489	8,699,044
Net income attributable to non-controlling interests	(65,149)	318	0	2,348	7,707
Total comprehensive income attributable to owners of the parent	4,950,331	5,816,473	4,146,377	4,762,958	8,721,255
Total comprehensive income attributable to non-controlling interests	(65,625)	2,226	0	1,379	7,999
Earnings per share	24.67	29.23	21.91	23.05	44.14

6.1.1.4. Condensed Comprehensive Income Statement-
Individual Financial Statement

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

Item \ Year	Financial information in the most recent five years				
	2016	2017	2018	2019	2020
Operating revenue	43,678,547	41,773,532	40,804,130	44,479,275	48,350,427
Operating gross profit	9,207,321	11,449,095	9,131,272	11,152,581	12,154,933
Operating profit (loss)	4,916,446	6,723,101	4,736,351	5,212,694	3,849,050
Non-operating revenue and expenses	615,752	(9,896)	264,002	127,752	5,455,206
Net income before tax	5,532,198	6,713,205	5,000,353	5,340,446	9,304,256
Net income from continuing operations	4,866,992	5,760,972	4,318,119	4,543,489	8,699,044
Loss from discontinued operations	0	0	0	0	0
Net income (loss) for the period	4,866,992	5,760,972	4,318,119	4,543,489	8,699,044
Other comprehensive income (loss) for the period (Net value after tax)	83,339	55,501	(171,742)	219,469	22,211
Total comprehensive income for the period	4,950,331	5,816,473	4,146,377	4,762,958	8,721,255
Net income attributable to shareholders of the parent company	N/A	N/A	N/A	N/A	N/A
Net income attributable to non-controlling interests	N/A	N/A	N/A	N/A	N/A
Total comprehensive income attributable to owners of the parent	N/A	N/A	N/A	N/A	N/A
Total comprehensive income attributable to non-controlling interests	N/A	N/A	N/A	N/A	N/A
Earnings per share	24.67	29.23	21.91	23.05	44.14

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

Year	Name of the accounting firm	Names of the CPAs	Audit opinion
2016	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, You Wei Fan	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2017	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, You Wei Fan	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2018	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, You Wei Fan	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2019	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, Li Wen Kuo	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2020	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, Li Wen Kuo	An Unmodified Opinion with a Paragraph of Other Stressed Matters

6.2 Financial analysis in the most recent five years

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

Unit: %

Item		Year	Financial analysis in the most recent five years				
			2016	2017	2018	2019	2020
Financial structure (%)	Ratio of liabilities to assets		28.08	25.82	26.14	24.45	26.09
	Ratio of long-term capital to property, plant, and equipment		947.81	923.11	899.99	889.10	760.80
Solvency (%)	Current ratio		300.48	321.41	324.92	343.42	317.33
	Quick ratio		241.07	240.85	243.81	216.46	230.49
	Times interest earned ratio		2,668.77	1,349.70	988.22	2,668.46	1,889.82
Operation performance	Receivables turnover (times)		9.48	7.95	7.43	8.00	8.12
	Average days for cash receipts		38.50	45.91	49.12	45.62	44.95
	Inventory turnover ratio (times)		6.59	4.89	4.29	3.51	3.34
	Payables turnover ratio (times)		8.51	8.09	7.49	7.94	10.21
	Average days for sale of goods		55.38	74.64	85.08	103.98	109.28
	PP&E turnover ratio (times)		21.55	15.95	14.03	14.25	12.23
	Total asset turnover ratio (multiples)		1.45	1.25	1.14	1.19	1.13
Profitability	Return on assets (%)		15.91	17.18	12.08	12.11	20.21
	Return on equity (%)		22.05	23.49	16.30	16.21	27.06
	Ratio of income before tax to paid-in capital (%)		277.91	340.88	253.97	271.52	491.87
	Net profit rate (%)		10.97	13.76	10.59	10.17	17.95
	Earnings per share (NT\$)		24.67	29.23	21.91	23.05	44.14
Cash flow	Cash flow ratio (%)		55.62	43.20	55.34	0.00	56.13
	Cash flow adequacy ratio (5)		116.20	92.61	114.62	83.19	87.99
	Cash re-investment ratio (%)		11.02	4.18	6.73	(9.17)	10.94
Leverage	Degree of operating leverage (DOL)		1.05	1.05	1.09	1.09	1.15
	Degree of financial leverage (DFL)		1.00	1.00	1.00	1.00	1.00

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

- (1) The decrease of times interest earned ratio was caused by the increasing earnings of the Group in 2020.
- (2) The increase of payables turnover ratio was caused by the increase in cost of goods sold in line with the increase in revenue in 2020.
- (3) The increase in return on assets, return on equity, ratio of net profit before tax to paid-in capital, net profit ratio, and earnings per share was caused by the increase in gross operating profit in 2020 and the increase in net income before income taxes due to the disposal of equity method investments and the gain on disposal of subsidiaries.
- (4) The increase in cash flow ratio and cash re-investment ratio was caused by the increase in net cash flows from operating activities as a result of a decrease in inventory at the end of 2020 and increase in gross operating profit for the period, and from the disposal of equity method investments and cash inflows from subsidiaries.

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

Unit: %

Item		Year	Financial analysis in the most recent five years				
			2016	2017	2018	2019	2020
Financial structure (%)	Ratio of liabilities to assets		26.84	24.64	25.14	23.82	25.65
	Ratio of long-term capital to property, plant, and equipment		960.92	932.95	908.84	893.61	888.92
Solvency (%)	Current ratio		300.56	321.04	322.48	328.42	291.13
	Quick ratio		237.32	235.51	238.01	197.85	203.98
	Times interest earned ratio		2,695.69	1,348.76	987.26	2,663.24	2,949.12
Operation performance	Receivables turnover (times)		9.58	8.03	7.50	7.99	8.12
	Average days for cash receipts		38.10	45.45	48.66	45.68	44.95
	Inventory turnover ratio (times)		6.58	4.89	4.31	3.52	3.35
	Payables turnover ratio (times)		8.49	8.08	7.50	7.90	10.14
	Average days for sale of goods		55.47	74.64	84.68	103.69	108.95
	PP&E turnover ratio (times)		21.72	16.11	14.18	14.29	13.40
	Total asset turnover ratio (multiples)		1.48	1.27	1.16	1.20	1.13
Profitability	Return on assets (%)		16.48	17.47	12.26	12.25	20.34
	Return on equity attributable to shareholders of parent company (%)		22.47	23.49	16.30	16.21	27.05
	Ratio of income before tax to paid-in capital (%)		280.72	340.64	253.73	270.99	472.12
	Net profit rate (%)		11.14	13.79	10.58	10.21	17.99
	Earnings per share (NT\$)		24.67	29.23	21.91	23.05	44.14
Cash flow	Cash flow ratio (%)		59.01	46.42	58.27	0.00	58.28
	Cash flow adequacy ratio (%)		113.88	91.45	109.76	85.39	89.79
	Cash re-investment ratio (%)		10.95	4.35	6.74	(9.10)	11.62
Leverage	Degree of operating leverage (DOL)		1.05	1.05	1.09	1.08	1.14
	Degree of financial leverage (DFL)		1.00	1.00	1.00	1.00	1.00

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

- (1) The increase of payables turnover ratio was caused by the increase in cost of goods sold in line with the increase in revenue in 2020.
- (2) The increase in return on assets, return on equity, ratio of net profit before tax to paid-in capital, net profit ratio, and earnings per share was caused by the increase in gross operating profit in 2020 and the increase in net income before income taxes due to the disposal of equity method investments and the gain on disposal of subsidiaries.
- (3) The increase in cash flow ratio and cash re-investment ratio was caused by the increase in net cash flows from operating activities as a result of a decrease in inventory at the end of 2020 and increase in gross operating profit for the period, and from the disposal of equity method investments and cash inflows from subsidiaries.

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

1. Financial structure

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

2. Solvency

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

3. Operation performance

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

4. Profitability

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

5. Cash flow

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

6. Degree of leverage:

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

6.3 2020 Audit Committee's Review Report

Audit Committee's Report

The Board of Directors prepared the Company's business report, financial statements (including consolidated financial statements), and proposal of earnings distribution of the Company for 2020. Of which, the financial statements have been audited by Xin Wei Dai, Li Wen Kuo from Touche Tohmatsu Limited through an entrustment, and an audit report has been issued. Above business reports, financial statements (including consolidated financial statements) and proposal of earnings distribution were audited by Supervisor and found no discrepancy, as reported in accordance with Article 219 of the Company Act, please check.

Sincerely

2021 Annual Shareholders' Meeting

Phison Electronics Corporation
Convener of the Audit Committee: Wen Chiu Chung

March 11, 2021

- 6.4 2020 Financial Statements (Including CPA Audit Report, Two-year Comparative Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Chart, and Notes or Attachments): Please refer to page 164 to page 242.**
- 6.5 The Audited Nonconsolidated Financial Statement for the Year of 2020: Please refer to page 243 to page 324.**
- 6.6 Financial Impact on the Company where the Company and its Affiliated Companies Have Incurred any Financial or Cash Flow Difficulties in the Most Recent Year and as of the Publication Date of the Annual Report: None.**

Chapter 7

Financial Status and Operating Results Review and Risk Matters



Chapter 7 Financial Status and Operating Results Review and Risk Matters

7.1. Financial Status Analysis

Consolidated Financial Statements

Unit: NT\$ thousands

Item	Year	2020.12.31	2019.12.31	Difference	
				Amount	%
Cash and cash equivalents		14,961,122	10,205,257	4,755,865	46.60
Financial assets measured at fair value through profit or loss-current		5,494,720	3,440,905	2,053,815	59.69
Notes and accounts receivable		6,017,701	5,933,970	83,731	1.41
Inventories		10,141,479	11,532,724	(1,391,245)	(12.06)
Other current assets		711,903	846,983	(135,080)	(15.95)
Financial assets measured at fair value through profit or loss - non-current		437,236	459,306	(22,070)	(4.81)
Financial assets measured at fair value through other comprehensive profit and loss - non-current		360,304	636,432	(276,128)	(43.39)
Investment accounted for using equity method		4,007,874	1,644,159	2,363,715	143.76
Property, plant, and equipment		4,646,540	3,282,950	1,363,590	41.54
Other non-current assets		785,073	654,094	130,979	20.02
Total assets		47,563,952	38,636,780	8,927,172	23.11
Notes payables and accounts payables		3,455,917	3,642,659	(186,742)	(5.13)
Other current liabilities		8,306,765	5,663,722	2,643,043	46.67
Non-current liabilities		645,803	141,771	504,032	355.53
Total liabilities		12,408,485	9,448,152	2,960,333	31.33
Share capital		1,970,740	1,970,740	0	0.00
Capital surplus		6,586,173	6,724,104	(137,931)	(2.05)
Retained earnings		26,763,895	20,643,601	6,120,294	29.65
Other equity interest		(165,341)	(176,125)	10,784	(6.12)
Total equity attributable to shareholders of the parent company		35,155,467	29,162,320	5,993,147	20.55
Non-controlling Interests		0	26,308	(26,308)	(100.00)
Total equity		35,155,467	29,188,628	5,966,839	20.44
Cause and impact of the significant differences (more than 20% and NT\$10 million) of assets, liabilities, and equities in the most recent two years:					
(1) The increase in cash and cash equivalents increase was mainly due to the decrease in inventory at the end of the period and the increase in net cash flow from operating activities as a result of higher gross profit for the period and the cash inflow from disposal of equity method investments and subsidiaries.					
(2) The increase in financial assets at fair value through profit or loss - current was mainly due to the purchase of funds with part of the net cash increase site.					
(3) The decrease in financial assets at fair value through other comprehensive income - noncurrent was mainly due to the disposal of investments and valuation losses.					
(4) The increase in investments accounted for using the equity method was mainly due to the revaluation of the remaining equity in the Company after the partial derecognition of its equity disposal at market value.					
(5) The increase in property, plant and equipment was mainly due to the payment for outstanding construction work in FY109 and the increase in property due to the merger and acquisition of subsidiaries.					
(6) The increase in other non-current assets was mainly due to the increase in the acquisition of intangible assets and deferred income tax assets.					
(7) The increase in other current liabilities was mainly due to the increase in provisional charges and refund liabilities.					
(8) The increase in non-current liabilities was mainly due to the increase in deferred income tax liabilities and long-term borrowings of the acquired subsidiaries.					
(9) The increase in retained earnings was mainly due to the gain in 2020.					
(10) The decrease in non-controlling interests was mainly due to the decrease in minority interests in the subsidiaries.					

7.2. Operating Results Analysis

7.2.1 Comparison Analysis of Operating Results

Consolidated Statements of Comprehensive Income

Unit: NT\$ thousands

Item	Year	2020 (Consolidated)		2019 (Consolidated)		2020
						Growth rate
		Amount	%	Amount	%	%
Operating revenue		48,496,522	100.00	44,693,441	100.00	8.51
Operating costs		36,249,047	74.75	33,544,166	75.05	8.06
Operating gross profit		12,247,475	25.25	11,149,275	24.95	9.85
Marketing expenses		876,567	1.81	601,933	1.35	45.63
Administrative expenses		788,866	1.63	676,893	1.51	16.54
R&D expenses		6,752,676	13.92	4,714,400	10.55	43.24
Expected credit loss/ gain		(60,241)	(0.12)	(53,964)	(0.12)	(11.63)
Operating expenses		8,357,868	17.23	5,939,262	13.29	40.72
Net operating profit		3,889,607	8.02	5,210,013	11.66	(25.34)
Non-operating income and expenses		5,803,822	11.97	140,921	0.32	4,018.49
Net income before tax		9,693,429	19.99	5,350,934	11.97	81.15
Income tax expense		986,678	2.03	805,097	1.80	22.55
Net profit for the period		8,706,751	17.95	4,545,837	10.17	91.53
Other comprehensive income (loss)		22,503	0.05	218,500	0.49	(89.70)
Total comprehensive income for the period		8,729,254	18.00	4,764,337	10.66	83.22
Net profit for the period attributable to owners of the parent company		8,699,044	17.94	4,543,489	10.17	91.46
Comprehensive income (loss) for the period attributable to shareholders of the parent company		8,721,255	17.98	4,762,958	10.66	83.11
Earnings per share (NT\$)		44.14		23.05		

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

As follows:

- (1) The growth of Operating gross profit is mainly resulted from the increase of operating income and adjustment of product structure.
- (2) The increase in operating expenses was mainly due to the increase in the number of employees, higher research and development expenses and the provision of employee bonuses due to the increase in net income before tax.
- (3) The increase in net non-operating income and expenses was mainly due to the increase in disposal of equity method investments and gain on disposal of subsidiaries in 2020.
- (4) The increase in income tax expense was mainly due to the income tax on capital gains generated by the subsidiaries.
- (5) The decrease in other comprehensive income was mainly due to the adjustment in the valuation of investments in equity instruments measured at fair value through other comprehensive income.

2. Estimated sales volume of the year of 2020, the basics and the possible impact on the Company's finance and business and response plan in future:

According to the Company's product launch timeline, business plan, market demand forecast, industry competitive situation, and the major customer's business outlook assessment and other estimates, the total shipments of flash memory controllers and related system applications are estimated to reach about 560 million units in 2021. The Company continually enhances the quality of mature products to stabilize market share. Also, new applications are launched to maintain the Company's image of "leading technology and innovative products" to strengthen the Company's competitiveness with a positive effect on its performance.

7.2.2 The Operating Gross Profit Difference Analysis

Unit: NT\$ thousands

Item	Difference	Reasons			
		Price difference	Cost difference	Sales combination difference	Quantity difference
Operating gross profit	1,098,200	6,742,398	(5,425,838)	526,689	(745,049)
Reason	1. Market price difference advantage: The increase in average selling price per unit was mainly due to the increase in shipment capacity of finished goods. 2. Cost difference disadvantage: Mainly due to higher average unit cost as a result of increased shipment capacity of finished goods. 3. Sales combination difference advantage: mainly due to the adjusting of products portfolio to increase the shipment of high margin products in the period. 4. Quantity difference disadvantage: Mainly due to the decrease in the total shipments.				

7.3. Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Year of 2020

Unit: NT\$ thousands

Cash balance at the beginning of the period (1)	Net cash flow from operating activities (2)	Cash used in investing and financing activities (3)	Cash balance (inadequacy) (1)+(2)-(3)	Remedy for cash inadequacy	
				Investment plan	Financing plan
10,205,257	6,602,126	1,846,261	14,961,122	N/A	N/A
Cash Flow Analysis for the Year of 2020: Operating activities: Net cash inflow was mainly due to the increase in the Company's gross operating profit in 2020 and the decrease in inventory and increase in other payables at the end of the year. Investing activities: Outflow of net cash, mainly resulted from the Company acquiring the financial assets measured at fair value through profit or loss and purchase of fixed assets and intangible assets. Financing activities: Outflow of net cash, mainly resulted from the Company distributing cash dividends.					

7.3.2 Remedy Action for Estimated Cash Inadequacy: None

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

Unit: NT\$ thousands

Cash balance amount at the beginning of the year (1)	Estimated cash flow from operating activities (2)	Estimated cash used in investing and financing activities (3)	Estimated cash balance (inadequacy) (1)+(2)-(3)	Remedy for cash inadequacy	
				Investment plan	Financing plan
14,961,122	2,350,000	8,790,000	8,521,122	N/A	N/A
<p>1. Analysis of the cash flow difference of the next year: Operating activities: Mainly resulted from the estimated inventory needs and operation status. Investing activities: Mainly resulted from the construction of new plants, acquisition of fixed assets and intangible assets, and the increase of reinvestment plans. Financing activities: Mainly resulted from the distribution of cash dividends to shareholders.</p> <p>2. Remedy action for estimated cash inadequacy: N/A</p>					

7.4. 2020 Major Capital Expenditures and Impact on Financial and Business:

7.4.1 Major Capital Expenditure Items and Source of Capital:

Unit: NT\$ thousands

Item	Content	Total capital amount	Estimated source of capital	Estimated purchase or construction timeline	Capital application	
					2020	2021 and future year
Fixed assets - Jhunan Phase V Plant Building Construction Project	Two ground floors and seven ground floors of the plant building are built with a reinforced concrete (RC) structure, the total floor area is around 13,508 flat (1 flat = 3.3057 square meters)	1,398,000	Own funds	2020-03/01 ~2021/12/31	699,000	699,000
Fixed assets - New construction of Jhunan Plant and ancillary loading and unloading parking space	Two ground floors and nine ground floors of the three-dimensional parking building are built with a reinforced concrete (RC) structure, the total floor area is around 9,400 flat (1 flat = 3.3057 square meters)	829,000	Own funds	2021/02/05 ~ 2022/03/31	13,397	815,603

7.4.2 Impact on Financial and Business:

Since the operation of the Company is in good status, the source of major capital expenditure in recent years is mainly the own operating capital. The Company has no major adverse impact on the company and its subsidiaries' financial and business status. The Company has evaluated the fund necessity of purchasing land and constructing plant plans prudently and has properly planned the use of operating funds and has not faced the risk of capital shortage, therefore, there is no major adverse impact on the Company and its subsidiaries' financial and business status.

7.4.3 Expected Benefits:

It is expected to expand recruitment and employ more talents so as to reach the established profit and growth goals, improve operation performance, and achieve sustainable development and continuous growth.

7.5. 2020 Investment Policy, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for 2021

7.5.1 Investment Policy in the Most Recent Year

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

7.5.2 Analysis for Reinvestment Profits and Losses

In 2020, the investment gains by equity method is NT\$479,022 thousand, mainly due to the Company's gains from investments in affiliates using the equity method.

7.5.3 Investment Plans for the Next Year

The investment plans of the next year will focus on strategic investments, which the Company may establish operating branches in major domestic/overseas markets based on the industry environment and the needs of Phison Group's development. Investment plans should be carefully reviewed and 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

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

The interests of the Company and its subsidiary companies in 2019 and 2020 are NT\$2,006 thousand and NT\$5,132 thousand respectively, accounting for 0.0045% and 0.011% of the net operating revenue of the corresponding year. So, the change in interest rates has no significant impact on the overall operation of the Company.

The Company used credit loans for its financing without long-term loans in the past years. By the end of 2020, the Company had short-term loans of NT\$1,480,480 thousand and long-term loans of NT\$226,122 thousand, respectively, due to the acquisition of subsidiaries with fixed interest rates. There is no plan for long-term loans in the next year, so the change in interest rates has no significant impact on the net results of the Company. Yet, the Company will continually pay attention to the trend of interest rates and regularly assess the financing policies.

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

The Company usually quotes the price of the sales by US dollars and quotes the price of purchases by US dollars and NT dollars. Although the risk of foreign exchange rate is partially offset, if the change is in big fluctuations, it can still exert impacts on the revenue and profit of the Company. In 2020, the foreign exchange loss is NT\$318,756 thousand, which is the profit resulted from the fluctuation of the foreign exchange rate. The finance department of the Company pays attention to the trend at all times to hedge against risks. In addition, the finance department keeps a good relationship with banks to obtain information and suggestions

about the trend of foreign exchange rate. Based on the information and suggestions, the finance department will take actions to reduce the risk of foreign exchange rates.

Inflation: In 2020 and as of the publication date of the annual report, the inflation has no significant impact on the net profit or loss of the Company and its subsidiaries.

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

In 2020 and as of the publication date of the annual report, the Company only makes short-term transactions in foreign currency to hedge against the risk of foreign exchange rate. Besides these transactions, the company did not make any investment with high leverage and high risk. The Company has established the internal control regulations, such as “Procedures for acquisition or disposal of assets”, “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee” and “Procedures for Engaging in Derivatives Trading”. The Company has never loaned money to others and never endorsed for others so far. The Company limits its derivative product trades only to hedge in trades. Therefore, these operations will not affect the profit or loss of the Company.

7.6.3 Future R&D Projects and Estimated Expenditures

1. Major R&D Projects in 2021:

- (1) High speed, high capacity USB 3.2 Gen 2x2 Flash Drive solutions to meet the huge data transfer needs of the high resolution AV market such as content creators.
- (2) High random write performance SD/microSD card and compliant with SD 7.0 to meet the needs of high-end mobile devices and high-resolution video and audio recording.
- (3) The latest generation UFS controller chips that support high data rate of 3D NAND flash and optimize for the automotive storage market to meet the future needs of high-speed computing such as self-driving cars.
- (4) High-performance SSD that supports the latest PCIe/NVMe protocol, including next-generation PCIe Gen4 and PCIe Gen5 SSD controller chips and maintains high-end technology leadership.
- (5) Next-generation PCIe PHYs for advanced manufacturing process and continue to layout IP licensing field.
- (6) High-end enterprise and data center SSD that support to higher capacity, performance and data error correction and work with strategic partners on joint research and development to meet the needs of the enterprise storage market.
- (7) New LDPC ECC engines for emerging 3D QLC and next-generation PLC NAND Flash.
- (8) SiP technology for smaller-size, higher-capacity and power-saving SSDs, including eMMC, UFS, and BGA SSD to meet the high-speed storage needs of future mobile devices in the automotive storage market.

(9) Automotive SSD solutions compliant with automotive industry standards and continue to strengthen the certification of various vehicle regulations, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc.

(10) SiP technology of SSD solutions for variety of embedded application.

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 2021 is approximately \$ 5.7 billion.

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

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

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

1. In recently years, small IT products are popular in the market and the demand for portable storage is growing rapidly, so more and more application products of built-in flash have been announced. There are many new transfer interfaces to meet the needs of customers. In addition, more and more products are equipped with SSD instead of traditional hard disks. Hence, the demand for small storage media, built-in flash model and SSD is steadily growing and these products are beneficial to the finance and business of the Company. We will invest more R&D resources into these products to respond to the new challenge from the new technology in the future.
2. With the advancement of internet and information technology, information is open to the whole world, and work efficiency is greatly improved by many new tools. We have built an environment for automatic design to promote the effectiveness and efficiency of product development. We have successfully introduced TIPTOP GP ERP System, AgentFlow system, Phison life plaza, and GRM system to effectively integrate the internal control functions, promote productivity and monitor the product quality.
3. The important risk assessments such as the assessment and evaluation of information

security risks and their response measurement: The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy," "QW220010 Information System Change Management Specification," "QW220011 Server Host Management Specifications," "QW220006 System Development and Maintenance Management Specifications," etc. On August 12, 2020, an audit meeting was held to review the improvement of information security and assess applicability, and on October 19, 2020, we passed the three-year re-examination of BSI British Standards Association ISO27001 international information security certification. The Company will keep strengthening colleagues and organization over information security protection, and establish joint defense mechanism with vendors or partners in future.

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

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

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

For the Group's development strategy, in order to obtain independent and controllable production capacity and process lines, the Group effectively integrates corporate technology resources to improve operational efficiency and enhance competitive advantages in the market. In July 2020, subsidiary Phisontech Electronics Taiwan Corporation's acquired 100% equity interest in Super Storage Technology Corporation.

Expected benefits: Through this share swap, the Group will be able to enhance the quality of its own production technology and have its own production capacity for timely deployment, effectively integrate technical resources to improve operational efficiency and enhance the competitive edge in the market, and enhance operational performance and global competitiveness.

Expected Benefits and Response Measures: None.

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

In response to the growth of the Company's operation scale, the Board of Directors approved the new construction project of the Jhunan Phase V Plant Building on January 17, 2020. The main purpose of the new factory building is to increase the storage space, office area for additional R&D team and the overall employee function area, in order to match the Company's operation strategy and expect to bring in more talented people to

strengthen the Company's R&D niche and accelerate the growth of the Company's operation scale. The total construction cost of the turnkey project is approximately NT\$1,398,000 thousand, which will be financed by the Company's own capital, and the construction period is expected to be from March 1, 2020 to December 31, 2021. In addition, on November 12, 2020, the Board of Directors resolved to build a factory and ancillary loading and unloading parking space in the Jhunan Science and Technology Park by self-appointed construction. The total cost of the turnkey project is approximately NT\$829,000,000. The construction period is expected to be from February 5, 2021 to March 31, 2022, in line with the growth of the Company's operation scale and number of employees and the construction of a new physical parking lot for employees in the Jhunan Phase V plant. In addition to the above-mentioned plans, the Company will continue to carefully evaluate and plan for major investment projects and needs such as the acquisition of land, buildings or the construction of plants, depending on the actual operational needs of the Group's domestic and overseas companies. For details of our plans to expand our plants, please refer to the impact of significant capital expenditures on financial operations in the most recent year on page 145 of this annual report.

Expected Benefits and Response Measures: None.

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

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

The Company's major supplier is KIOXIA Taiwan Corporation (Kioxia KITW), which is a subsidiary of KIOXIA Japan invested in the Company due to the capability of controller and system product design. KIOXIA Japan invested in the Company due to the capability of controller and system product design. KIOXIA Japan invested and closely collaborated with the Company to develop various products. The Company coordinates the new flash memory technologies of MLC (Multiple Cell Type), TLC (Triple-level Cell), and 3D Nand from KIOXIA Japan to design the controllers with high performance and high compatibility. We also purchase the relevant flash memory application products from the affiliates of KIOXIA Japan for our system products. The performance of the firmware in controllers by using KIOXIA flash memory is excellent and we have successfully developed many flash memory application products, our partnership with KIOXIA goes closer and smoothly. Those are the reason the company

purchased flash memory from the affiliates of KIOXIA Japan in the excessive concentration of purchasing sources.

2. Excessive Concentration of Customers: None.

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 Litigation or Non-litigation Events

1. In the most recent two years and up to the publication date of the prospectus, for the litigation, non-litigation or administrative dispute that has been determined or is currently under litigation, if their results have significant impact on shareholders' equity or securities price, the facts in dispute, target amount, commencement date of litigation, main parties involved and current handling situation shall be disclosed: The Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office ("District Prosecutorial Office") on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the "Case"). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office ("High Prosecutors Office") for reconsideration. On November 18, 2019, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. Following the aforementioned indictment, the Company was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center ("Investors Protection Center") had filed two civil actions respectively as follows: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation's board ("Removal Action"), (2) the second civil action was to claim compensation damage against the Company, its board of directors and other co-defendants on behalf of certain investors ("Class Action"). Those two civil actions were derivative litigations arising from the Case. The Company has already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court but it was considered to have no significant influence to its finance and operations at the present stage.

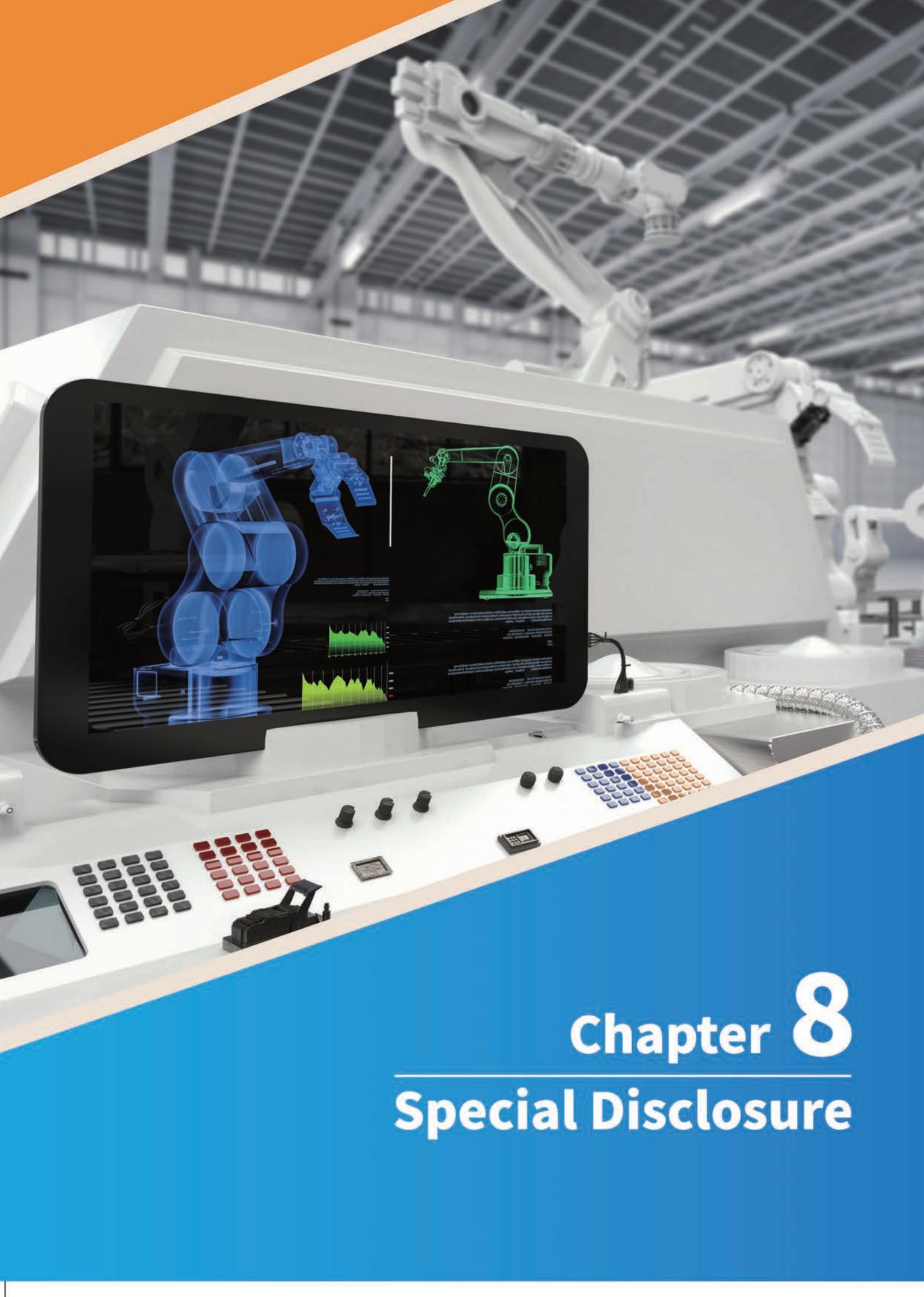
2. For Directors, Supervisors, President, the person in charge or shareholders with shareholdings of over 10% and affiliated companies, in the most recent two years and up to the publication date of the annual report, if the litigation, non-litigation or

administrative dispute that has been determined or is currently under litigation, the results may have a significant impact on shareholders' equity or securities price: None.

3. For Directors, Supervisors, President, the person in charge or shareholders with shareholdings of over 10% and affiliated companies, in the most recent two years and up to the publication date of the annual report, the occurrence of events stipulated by Article 157 in Securities Exchange Act and the Company's current treatment: None.

7.6.13 Other Major Risks: None

7.7. Other Major Events: None.



Chapter 8

Special Disclosure

Chapter 8 Special Disclosure

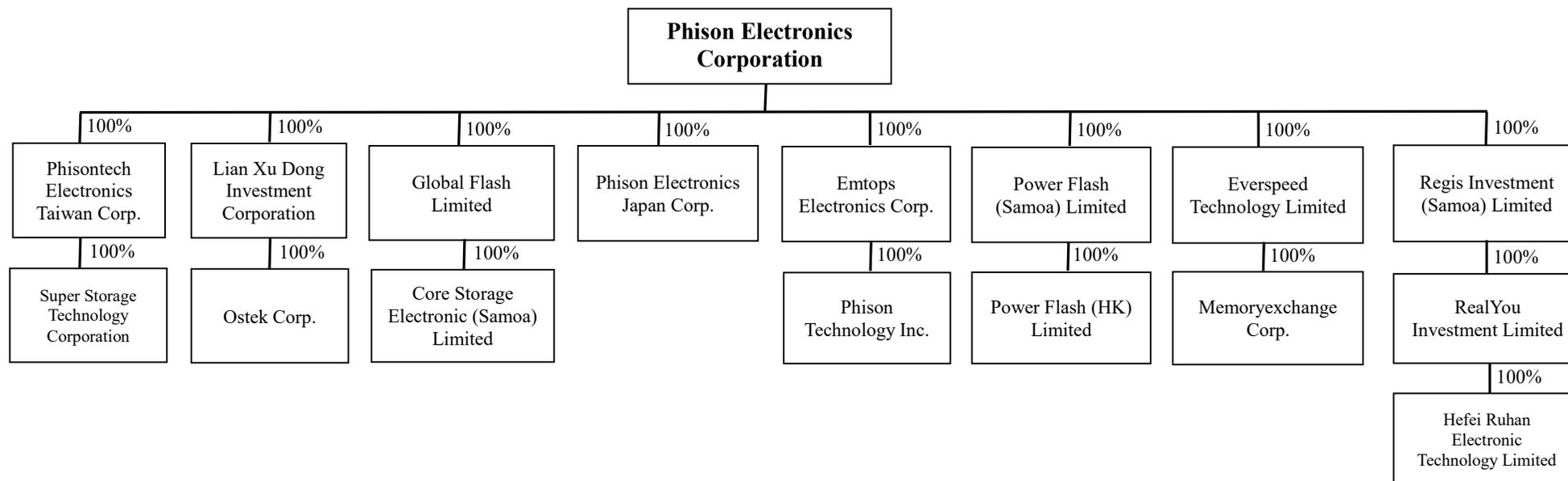
8.1 Summary of Affiliated Companies

8.1.1 Consolidated business report of affiliated companies

8.1.1.1 Overview of the affiliated companies

(1) Organizational Structure of Affiliated Companies

Date: December 31, 2020



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

8.1.1.2 Basic information of affiliated businesses

Date: December 31, 2020, units: NT\$ thousand

Name	Date of incorporation	Address	Actual paid-in capital		Main Business or Products	Remarks
			Original currency	NT\$		
Lian Xu Dong Investment Corporation	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	650,000	650,000	Investment Subsidiary
Global Flash Limited	2012.06	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	USD	22,100	726,307	Investment and trade Subsidiary
Phison Electronics Japan Corp.	2011.02	4th Floor, 4-5-11 Namamugi, Tsurumi-ku, Yokohama City, Kanagawa, Japan	JPY	140,000	41,655	Sales and service office Subsidiary
Emtops Electronics Corporation	2011.03	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	380,000	380,000	Investment Subsidiary
Power Flash (Samoa) Limited	2015.07	Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa	USD	3,200	105,440	Investment and trade Subsidiary
Everspeed Technology Limited	2002.05	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	-	-	-	Trade of electronic components Subsidiary
Regis Investment (Samoa) Limited	2018.01	Portcullis Chambers, P.O. Box 1225, Apia, Samoa	USD	21,900	655,995	Investment Subsidiary
Phisontech Electronics Taiwan Corp.	2013.05	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	550,000	550,000	Investment and trade Subsidiary
Ostek Corporation [Note 1]	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	9,000	9,000	Manufacturing and trade of electronic components Sub-subsidiary
Core Storage Electronic (Samoa) Limited [Note 2]	2015.04	Maystar Chambers P.O.Box 3269, Apia, Samoa	USD	19,150	636,593	Investment and trade Sub-subsidiary
Super Storage Technology Corporation [Note 3]	2006.03	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	348,426	348,426	Manufacturing and trade of electronic components Sub-subsidiary
Power Flash (HK) Limited [Note 4]	2015.08	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	3,000	98,754	Sale, trade of electronic products Sub-subsidiary

Name	Date of incorporation	Address	Actual paid-in capital		Main Business or Products	Remarks	
			Original currency	NT\$			
Memoryexchange Corporation [Note 5]	2006.05	2F, No.1, Qunyi Rd.,Jhunan Township, Miaoli County 350, Taiwan (R.O.C.)	NTD	209,500	209,500	Design and sale of flash memory related products	Sub-subsidiary
Real You Investment Limited [Note 6]	2018.02	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	21,850	654,726	Investment	Sub-subsidiary
Phison Technology Inc. [Note 7]	2019.7	2526 Qume Drive, Unit 28 San Jose, CA 95131	USD	3,000	90,419	Sales and service office	Sub-subsidiary
Hefei Ruhan Electronic Technology Limited [Note 8]	2018.05	Room 2046, Building D8, Hefei Innovation Industrial Park, 2800 Wangjiang West Road, Hefei High-tech Zone	CNY	40,800	182,825	R&D, design, sale, technical service of electronics hardware and software and related services and investment	Sub-subsidiary

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

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

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

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

[Note 5] This company is our subsidiary of subsidiary company via Everspeed Technology Limited.

[Note 6] This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.

[Note 7] This company is our subsidiary of subsidiary company via Emtops Electronics Corp.

[Note 8] This company is our subsidiary of subsidiary company via RealYou Investment Limited.

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

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

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

- ① Investment
- ② Investment and trade
- ③ Manufacturing and trade of electronic components
- ④ R&D, design, production, sales, technical services and electronic products software and hardware and rendering of related services.

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

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

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

Date: December 31, 2020, in shares, %

Company Name	Position	Name or Representative	Shareholding	
			Shares	%
Lian Xu Dong Investment Corporation	Director and Supervisor	Phison Electronics Corporation	65,000,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Chee Kong Aw Yong	0	0.00%
	Legal representative director	Boon Keat Ang	0	0.00%
	Legal representative Supervisor	Pi Ying Chiu	0	0.00%
Global Flash Limited	Parent company	Phison Electronics Corporation	22,100,000	100.00%
	Director	Khein Seng Pua	0	0.00%
	Director	Chee Kong Aw Yong	0	0.00%
Phison Electronics Japan Corp.	Parent company	Phison Electronics Corporation	2,000	100.00%
	Director	Tzung Horng Kuang	0	0.00%
	Director	Tanaka Motoji	0	0.00%
Emtops Electronics Corporation	Director and Supervisor	Phison Electronics Corporation	38,000,000	100.00%
	Legal representative Chairman	Tzung Horng Kuang	0	0.00%
	Legal representative director	Khein Seng Pua	0	0.00%
	Legal representative director	Chung Hsun Ma	0	0.00%
	Legal representative Supervisor	Zhi Chyang Yu	0	0.00%
Power Flash (Samoa) Limited	Parent company	Phison Electronics Corporation	3,200,000	100.00%
	Legal representative Director	Phison Electronics Corporation	3,200,000	100.00%
	Director	Tzung Horng Kuang	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	21,900,000	100.00%
	Legal representative Director	Phison Electronics Corporation	21,900,000	100.00%
Phisontech Electronics Taiwan Corp.	Director and Supervisor	Phison Electronics Corporation	55,000,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Chee Kong Aw Yong	0	0.00%

Company Name	Position	Name or Representative	Shareholding	
			Shares	%
	Legal representative director	Shu Hua Chiu	0	0.00%
	Legal representative Supervisor	Wee Kuan Gan	0	0.00%
Ostek Corporation	Director and Supervisor	Lian Xu Dong Investment Corporation	900,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Tzung Horng Kuang	0	0.00%
	Legal representative director	Wee Kuan Gan	0	0.00%
	Legal representative Supervisor	Hsiao Chun Peng	0	0.00%
Core Storage Electronic (Samoa) Limited	Parent company	Global Flash Limited	19,150,000	100.00%
	Director	Khein Seng Pua	0	0.00%
	Director	Chee Kong Aw Yong	0	0.00%
Super Storage Technology Corporation	Director and Supervisor	Phisontech Electronics Taiwan Corp.	34,842,595	100.00%
	Legal representative Chairman	Chee Kong Aw Yong	0	0.00%
	Legal representative director	Wee Kuan Gan	0	0.00%
	Legal representative director	Te Yi Hsieh	0	0.00%
	Legal representative Supervisor	Chien CHeng Wei	0	0.00%
Power Flash (HK) Limited	Parent company	Power Flash (Samoa) Limited	3,000,000	100.00%
	Director	Shu Hui Tsai	0	0.00%
	Director	Huei Chen Tsay	0	0.00%
Memoryexchange Corporation	Director and Supervisor	Everspeed Technology Limited	20,950,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Zhi Chyang Yu	0	0.00%
	Legal representative director	Chen Hao Tsai	0	0.00%
	Legal representative Supervisor	Pao Feng Chen	0	0.00%
RealYou Investment Limited	Parent company	Regis Investment (Samoa) Limited	21,850,000	100.00%
	Director	Yu Chu Chang	0	0.00%
Phison Technology Inc.	Parent company	Emtops Electronics Corporation	3,000,000	100.00%
	Director	Zong Cheng Wu	0	0.00%
Hefei Ruhan Electronic Technology Limited	Parent company	Real You Investment Limited	CNY40,800,000	100.00%
	Executive Director	Kuo Yi Cheng	0	0.00%
	Supervisor	Wan Xin Liao	0	0.00%

8.1.1.6 Operation Summary of the Affiliates

Date: December 31, 2020, Unit: NT\$ thousands

Name of Subsidiary	Capital	Total Assets	Total liabilities	Net Worth	Operating revenue	Operating profit	Net Income (Loss) (after tax)	EPS (NT\$/after tax)
Lian Xu Dong Investment Corporation	650,000	582,973	439	582,534	2,938	0	(1,803)	(0.03)
Global Flash Limited	726,307	4,392,033	0	4,392,033	0	(119)	3,928,788	—
Phison Electronics Japan Corp.	41,655	35,924	3,412	32,512	17,891	617	757	—
Emtops Electronics Corporation	380,000	354,748	256	354,492	0	(927)	2,711	0.07
Power Flash (Samoa) Limited	105,440	94,274	0	94,274	0	(49)	(276)	—
Everspeed Technology Limited	-	315,133	0	315,133	0	(81)	261,532	—
Regis Investment (Samoa) Limited	655,995	1,147,352	0	1,147,352	0	(68)	65,200	—
Phisontech Electronics Taiwan Corp.	550,000	609,449	200	609,249	474	(2,930)	28,731	0.52
Ostek Corporation	9,000	34,488	6,306	28,182	33,027	(2,274)	(772)	(0.85)
Core Storage Electronic(Samoa) Limited	636,593	2,920,824	0	2,920,824	0	(2,259)	3,945,768	—
Super Storage Technology Corporation	348,426	779,164	331,986	447,178	372,892	4,468	45,824	1.32
Power Flash (HK) Limited	98,754	88,768	43	88,725	0	(94)	58	—
Memoryexchange Corporation	209,500	271,579	153	271,426	0	(280)	261,210	12.47
RealYou Investment Limited	654,726	1,146,196	120	1,146,076	0	(178)	65,379	—
Phison Technology Inc.	90,419	116,108	23,926	92,182	178,555	6,038	4,892	—
Hefei Ruhan Electronic Technology Limited	182,825	170,138	94	170,044	0	(337)	(4,421)	—

8.1.2 Consolidated financial statement of affiliates: for 2020 (January 1, 2020, through to December 31, 2020), 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: The Company is not an affiliated company regulated by the Company Act, no such report is prepared.

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

Date: April 27, 2021

Item	Date of approval by shareholders' meeting: June 3, 2020 Approved quantity: Under 18,000,000 shares					Date of approval by Board of Directors: March 11, 2021 Approved quantity: Under 18,000,000 shares				
Securities under private placement	Common stock					Common stock				
Date of resolution and approved quantity	[Note 1]					[Note 2]				
Basis and rationale for price setting	[Note 1]					[Note 2]				
Selection method of specified parties	The specified parties should meet the requirements in Article 43-6 of Securities and Exchange Act and the Order No. Tai-Tasi-Cheng 0910003455 of FSC and be limited to strategic investors.					The specified parties should meet the requirements in Article 43-6 of Securities and Exchange Act and the Order No. Tai-Tasi-Cheng 0910003455 of FSC and be limited to strategic investors.				
Reasons for private placement	Considering the timeliness and feasibility of the capital market, issuance cost, private placement, as well as the limitation of trading within three years to enforce the long-term partnership, the Company issues new shares through private placement by cash.					Considering the timeliness and feasibility of the capital market, issuance cost, private placement, as well as the limitation of trading within three years to enforce the long-term partnership, the Company issues new shares through private placement by cash.				
Date of payment and completion	N/A					N/A				
Information on contributing parties	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations
Actual Purchase (or Conversion) Price	N/A					N/A				
Difference Between the Actual Purchase (or Conversion) Price and the Reference Price	N/A					N/A				
Impact of Private Placement on Shareholders' Equity	No material impact					No material impact				
Use of funds from private placement and progress of proposed plans	N/A					N/A				
Effectiveness of Private Placement	N/A					N/A				

[Note 1] The Board of Directors has decided that this private placement is being canceled on March 11, 2021. This decision will be reported at the 2021 shareholders' meeting.

[Note 2] This private placement has been approved by the Board of Directors on March 11, 2021, and will be discussed at the 2021 shareholders' meeting for approval.

- 8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Year and as of the Publication Date of the Annual Report: None.**
- 8.4 Other Necessary Statements: None.**

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

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2020 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

KHEIN SENG PUA
Chairman

March 11, 2021

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Group's consolidated financial statements for the year ended December 31, 2020 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presume that there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Group's customers are numerous and diverse, and the net sales of the Group for the year ended December 31, 2020 amounted to NT\$48,307,304 thousand. Therefore, there is a high possibility of abnormal sales from transactions with customers and validity of such transactions may have a significant effect on the consolidated financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

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

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

Emphasis of Matter

As stated in Note 35 to the accompanying consolidated financial statements, the Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office ("District Prosecutorial Office") from August 5, 2016 for alleged violation of the Securities and Exchange Act (the "Case"). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office ("High Prosecutors Office") for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center ("Investors Protection Center") had filed two civil actions, respectively: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation's board ("Removal Action"); (2) the second civil action was to claim compensation damage against the Corporation, its board of directors and other co-defendants on behalf of certain investors ("Class Action"). Those two civil actions were derivative litigations arising from the Case. The Corporation had already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. As such, our audit opinion is not modified in respect of this matter.

Other Matter

We have also audited the parent company only financial statements of Phison Electronics Corp. as of and for the years ended December 31, 2020 and 2019 on which we have issued an unmodified opinion with emphasis of matter paragraph.

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

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

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

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Hsin-Wei Tai and Li-Wen Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 11, 2021

Notice to Readers

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 14,961,122	31	\$ 10,205,257	27
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	5,494,720	12	3,440,905	9
Financial assets at amortized cost (Notes 9 and 31)	293,860	1	56,273	-
Accounts receivable				
Non-related parties (Note 10)	5,348,420	11	5,396,821	14
Related parties (Notes 10 and 30)	669,281	1	537,149	1
Other receivables (Note 10)	305,918	1	427,082	1
Current tax assets (Note 23)	4,635	-	45,499	-
Inventories (Note 11)	10,141,479	21	11,532,724	30
Prepayments	74,217	-	282,396	1
Other current assets	33,273	-	35,733	-
Total current assets	37,326,925	78	31,959,839	83
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	437,236	1	459,306	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 8)	360,304	1	636,432	2
Investments accounted for using the equity method (Note 13)	4,007,874	8	1,644,159	4
Property, plant and equipment (Notes 14 and 31)	4,646,540	10	3,282,950	8
Right-of-use assets (Note 15)	32,384	-	32,840	-
Intangible assets (Note 16)	313,894	1	268,026	1
Deferred tax assets (Note 23)	375,960	1	346,732	1
Other non-current assets	62,835	-	6,496	-
Total non-current assets	10,237,027	22	6,676,941	17
TOTAL	\$ 47,563,952	100	\$ 38,636,780	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 17)	\$ 1,480,480	3	\$ -	-
Contract liabilities	35,553	-	130,615	-
Accounts payable				
Non-related parties	2,166,195	5	2,258,562	6
Related parties (Note 30)	1,289,722	3	1,384,097	4
Other payables (Note 18)	6,045,010	13	4,398,129	11
Tax payable (Note 23)	93,608	-	602,714	2
Lease liabilities (Note 15)	16,420	-	12,520	-
Current portion of long-term borrowings (Notes 17 and 31)	30,486	-	-	-
Other current liabilities (Note 19)	605,208	1	519,744	1
Total current liabilities	11,762,682	25	9,306,381	24
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 17 and 31)	195,636	-	-	-
Deferred tax liabilities (Note 23)	325,441	1	21,930	-
Lease liabilities (Note 15)	16,212	-	20,702	-
Long-term deferred revenue	-	-	4,060	-
Net defined benefit liabilities (Note 20)	103,528	-	94,945	-
Guarantee deposits received	4,986	-	134	-
Total non-current liabilities	645,803	1	141,771	-
Total liabilities	12,408,485	26	9,448,152	24
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)				
Common shares	1,970,740	4	1,970,740	5
Capital surplus	6,586,173	14	6,724,104	17
Retained earnings				
Legal reserve	4,306,531	9	3,850,715	10
Special reserve	176,125	-	380,927	1
Unappropriated earnings	22,281,239	47	16,411,959	43
Total retained earnings	26,763,895	56	20,643,601	54
Other equity	(165,341)	-	(176,125)	-
Total equity attributable to owners of the Corporation	35,155,467	74	29,162,320	76
NON-CONTROLLING INTERESTS				
	-	-	26,308	-
Total equity	35,155,467	74	29,188,628	76
TOTAL	\$ 47,563,952	100	\$ 38,636,780	100

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 30)				
Gross sales	\$ 48,787,954	101	\$ 44,973,895	101
Less: Sales returns and allowances	<u>480,650</u>	<u>1</u>	<u>637,192</u>	<u>2</u>
Net sales	48,307,304	100	44,336,703	99
Other operating revenue	<u>189,218</u>	<u>-</u>	<u>356,738</u>	<u>1</u>
Total operating revenue	48,496,522	100	44,693,441	100
OPERATING COSTS (Notes 11, 22 and 30)	<u>36,236,716</u>	<u>75</u>	<u>33,544,166</u>	<u>75</u>
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>(12,331)</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>12,247,475</u>	<u>25</u>	<u>11,149,275</u>	<u>25</u>
OPERATING EXPENSES (Note 22)				
Marketing	876,567	2	601,933	1
General and administrative	788,866	1	676,893	1
Research and development	6,752,676	14	4,714,400	11
Expected credit gains (Note 10)	<u>(60,241)</u>	<u>-</u>	<u>(53,964)</u>	<u>-</u>
Total operating expenses	<u>8,357,868</u>	<u>17</u>	<u>5,939,262</u>	<u>13</u>
OPERATING INCOME	<u>3,889,607</u>	<u>8</u>	<u>5,210,013</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Other income	430,640	1	300,397	1
Other gains and losses (Note 13)	4,856,299	10	27,872	-
Financial costs	(5,132)	-	(2,006)	-
Interest income	42,993	-	58,473	-
Share of profits (losses) of associates (Note 13)	<u>479,022</u>	<u>1</u>	<u>(243,815)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>5,803,822</u>	<u>12</u>	<u>140,921</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	9,693,429	20	5,350,934	12
INCOME TAX EXPENSE (Note 23)	<u>986,678</u>	<u>2</u>	<u>805,097</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>8,706,751</u>	<u>18</u>	<u>4,545,837</u>	<u>10</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	2020		2019	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME FOR THE YEAR				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	\$ (7,434)	-	\$ (1,445)	-
Unrealized (loss) gain on investments in equity instruments at fair value through other comprehensive income	(107,664)	-	265,956	1
Share of other comprehensive income of associates accounted for using the equity method	60,414	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	1,487	-	289	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	106,330	-	(59,969)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 23)	(30,630)	-	13,669	-
Other comprehensive income for the year, net of income tax	22,503	-	218,500	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 8,729,254</u>	<u>18</u>	<u>\$ 4,764,337</u>	<u>11</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Corporation	\$ 8,699,044	18	\$ 4,543,489	10
Non-controlling interests	7,707	-	2,348	-
	<u>\$ 8,706,751</u>	<u>18</u>	<u>\$ 4,545,837</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Corporation	\$ 8,721,255	18	\$ 4,762,958	11
Non-controlling interests	7,999	-	1,379	-
	<u>\$ 8,729,254</u>	<u>18</u>	<u>\$ 4,764,337</u>	<u>11</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
EARNINGS PER SHARE (NT\$, Note 24)				
Basic	<u>\$ 44.14</u>		<u>\$ 23.05</u>	
Diluted	<u>\$ 43.01</u>		<u>\$ 22.78</u>	

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Corporation						Other Equity		Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total		
			Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2019	\$ 1,970,740	\$ 6,674,650	\$ 3,418,903	\$ -	\$ 15,228,504	\$ (67,908)	\$ (313,019)	\$ 26,911,870	\$ -	\$ 26,911,870
Appropriation of the 2018 earnings										
Legal reserve	-	-	431,812	-	(431,812)	-	-	-	-	-
Special reserve	-	-	-	380,927	(380,927)	-	-	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)
Changes in capital surplus from investments in associates accounted for using the equity method	-	47,085	-	-	-	-	-	47,085	-	47,085
Changes in percentage of ownership interests in subsidiaries	-	2,369	-	-	-	-	-	2,369	(2,369)	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	27,298	27,298
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	15,823	-	(15,823)	-	-	-
Net profit for the year ended December 31, 2019	-	-	-	-	4,543,489	-	-	4,543,489	2,348	4,545,837
Other comprehensive (loss) income for the year ended December 31, 2019, net of income tax	-	-	-	-	(1,156)	(44,591)	265,216	219,469	(969)	218,500
BALANCE AT DECEMBER 31, 2019	1,970,740	6,724,104	3,850,715	380,927	16,411,959	(112,499)	(63,626)	29,162,320	26,308	29,188,628
Appropriation of the 2019 earnings										
Legal reserve	-	-	455,816	-	(455,816)	-	-	-	-	-
Reversal of special reserve	-	-	-	(204,802)	204,802	-	-	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)	-	(2,561,962)
Changes in capital surplus from investments in associates accounted for using the equity method	-	(335,315)	-	-	(28,215)	-	-	(363,530)	94	(363,436)
Changes in percentage of ownership interests in subsidiaries	-	(426)	-	-	-	-	-	(426)	333	(93)
Recognition of employee share options	-	197,810	-	-	-	-	-	197,810	-	197,810
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(34,734)	(34,734)
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	17,374	-	(17,374)	-	-	-
Net profit for the year ended December 31, 2020	-	-	-	-	8,699,044	-	-	8,699,044	7,707	8,706,751
Other comprehensive (loss) income for the year ended December 31, 2020, net of income tax	-	-	-	-	(5,947)	75,408	(47,250)	22,211	292	22,503
BALANCE AT DECEMBER 31, 2020	\$ 1,970,740	\$ 6,586,173	\$ 4,306,531	\$ 176,125	\$ 22,281,239	\$ (37,091)	\$ (128,250)	\$ 35,155,467	\$ -	\$ 35,155,467

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 9,693,429	\$ 5,350,934
Adjustments for:		
Depreciation	377,747	293,221
Amortization	200,961	159,941
Expected credit gains	(60,241)	(53,964)
Net loss (gain) on financial assets at fair value through profit or loss	23,814	(154,451)
Financial costs	5,132	2,006
Interest income	(42,993)	(58,473)
Dividend income	(82,471)	(81,192)
Compensation costs of employee share options	197,810	-
Share of (profits) losses of associates	(479,022)	243,815
Loss (gain) on disposal of property, plant and equipment	2,282	(14,907)
(Gain) loss on disposal of investments	(5,202,580)	2,960
Write-down (reversal of write-down) of inventories	203,123	(63,347)
Unrealized gain on transactions with associates	12,331	-
Unrealized loss on foreign currency exchange	197,736	66,000
Gains on modification of lease	(468)	-
Recognition of refund liabilities	261,975	363,490
Net changes related to operating assets and liabilities		
Accounts receivable	(205,299)	(718,100)
Other receivables	126,753	(158,228)
Inventories	1,048,001	(3,892,546)
Prepayments	190,914	(255,137)
Other current assets	(10,615)	68,538
Contract liabilities	(92,481)	96,345
Accounts payable	(34,107)	(1,129,555)
Other payables	1,669,061	693,799
Other current liabilities	(171,443)	(187,786)
Net defined benefit liabilities	1,149	673
Deferred revenue	(1,060)	(10,008)
Cash generated from operations	7,829,438	564,028
Interest paid	(4,621)	(2,006)
Income tax paid	(1,222,691)	(762,238)
Net cash generated from (used in) operating activities	<u>6,602,126</u>	<u>(200,216)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(3,825)	(33,160)
Proceeds from sale of financial assets at fair value through other comprehensive income	144,485	112,653
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	246	-
Purchase of financial assets at amortized cost	(274,164)	-

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Proceeds from sale of financial assets at amortized cost	\$ -	\$ 10,944
Purchase of financial assets at fair value through profit or loss	(2,167,078)	(348,962)
Proceeds from sale of financial assets at fair value through profit or loss	92,379	99,958
Proceeds from capital reduction of financial assets at fair value through profit or loss	19,140	8,730
Acquisition of associates	(217,725)	(359,878)
Net cash inflow on disposal of associates	1,776,295	-
Net cash outflow on acquisition of subsidiaries	(316,430)	-
Net cash inflow on disposal of subsidiaries	1,713,062	-
Payments for property, plant and equipment	(1,057,251)	(534,637)
Proceeds from disposal of property, plant and equipment	177	15,008
(Increase) decrease in refundable deposits	(6,458)	632
Payments for intangible assets	(247,510)	(275,444)
Increase in prepayments for equipment	(53,049)	-
Interest received	43,189	59,240
Other dividends received	82,471	81,192
Dividends received from associates	<u>37,436</u>	<u>-</u>
Net cash used in investing activities	<u>(434,610)</u>	<u>(1,163,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	1,457,493	-
Repayments of long-term borrowings	(106,700)	-
Decrease in guarantee deposits	(254)	(10)
Repayment of the principal portion of lease liabilities	(15,506)	(10,794)
Dividends paid	(2,561,962)	(2,561,962)
(Decrease) increase in non-controlling interests	<u>(34,734)</u>	<u>27,298</u>
Net cash used in financing activities	<u>(1,261,663)</u>	<u>(2,545,468)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(149,988)</u>	<u>(61,731)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,755,865	(3,971,139)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>10,205,257</u>	<u>14,176,396</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 14,961,122</u>	<u>\$ 10,205,257</u>

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL INFORMATION

Phison Electronics Corp. (the “Corporation”) was incorporated on November 8, 2000 under the Company Act of the Republic of China (“ROC”). The Corporation mainly designs and sells flash memory controllers and peripheral system applications.

The Corporation’s shares have been trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

The consolidated financial statements of the Corporation and its subsidiaries, hereinafter collectively referred to as the “Group”, are presented in the Corporation’s functional currency, the New Taiwan dollar.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 11, 2021.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies.

- b. The IFRSs endorsed by the FSC for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendment to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of aforementioned standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of aforementioned standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value and net defined benefit liabilities measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- c. Level 3 inputs are unobservable inputs for an asset or liability.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period; and
- c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

All other assets and liabilities are classified as non-current.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e., its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (2) the assets and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Group directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

Refer to Note 12, Table 6, and Table 7 for detailed information on subsidiaries, including the percentages of ownership and main businesses.

Business Combinations

Acquisitions of businesses are accounted for by using the acquisition method. Associated costs of acquisition are generally recognized in profit or loss as they are incurred.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Corporation and its foreign operations (including subsidiaries and associates in other countries that use currencies different from the currency of the Corporation) are translated into the presentation currency, the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

Inventories

Inventories consist of raw materials, semi-finished goods, work-in-process, finished goods and merchandise, which are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at their weighted-average costs on the balance sheet date.

Investments in Associates

An associate is an entity over which the Group has significant influence and which is not a subsidiary.

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

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

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

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

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

When a group entity transacts with its associate, profits or losses resulting from these transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associates that are not related to the Group.

Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended uses.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Intangible Assets

a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

b. Intangible assets acquired in a business combination

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

c. Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Impairment of Property, Plant and Equipment, Right-of-use Asset and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

1) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such financial assets are recognized in other income and interest income, respectively; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 29.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition financial assets at amortized cost, including cash and cash equivalents and trade receivables, are measured at amortized cost and equal the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit adjusted effective interest rate to the amortized cost of such a financial asset; and
- ii. Financial assets that have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such a financial asset.

A financial asset is credit impaired when one or more of the following events have occurred:

- i. Significant financial difficulty of the issuer or the borrower;
- ii. Breach of contract, such as a default;
- iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv. The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) at the end of each reporting period.

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

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

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

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

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

3) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Financial liabilities

1) Recognition and measurement

On initial recognition, the transaction costs of financial assets that are neither held for trading nor designated as at FVTPL (including short-term borrowing, trade payables, other payables and guarantee deposits received) which are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities. Subsequent valuation is measured at amortized cost determined by the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Revenue Recognition

The Group identifies contracts with the customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of flash memory controllers, peripheral systems and other applications. Sales of the aforementioned goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a. The Group as lessor

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

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

b. The Group as lessee

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

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

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

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

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

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

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined benefit retirement plans are determined using the projected unit credit method. Service costs and net interest on net defined benefit liabilities (assets) are recognized as employee benefits expenses in the period that they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Termination benefits

A liability for termination benefits is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefits and when the Group recognizes any related restructuring costs.

Share-based Payment Arrangements - Employee Share Options

The fair value at the grant date of employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

The grant by the Corporation of its equity instruments to the employees of a subsidiary under options is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by referring to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus - employee share options.

Providing that the Group grants new equity instruments as a replacement for cancelled equity instruments, the Group shall recognize new equity instruments in the same way as a modification of original equity instruments. The incremental fair value is the difference between the fair value of new equity instruments and the net fair value of cancelled equity instruments at the date when new equity instruments are granted.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and that they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which a liability is settled or an asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised if the revisions affect only that year or in the year of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

Write-down of inventories

The net realizable value of inventory is its estimated selling price in the ordinary course of business less its estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 126	\$ 93
Checking accounts and demand deposits	10,490,173	7,672,079
Cash equivalents		
Time deposits with original maturities within 3 months	<u>4,470,823</u>	<u>2,533,085</u>
	<u>\$ 14,961,122</u>	<u>\$ 10,205,257</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Non-derivative financial assets - current</u>		
Financial assets mandatorily classified as FVTPL		
Beneficiary certificates - open-end funds	\$ 4,989,343	\$ 2,816,597
Domestic listed shares	505,377	529,538
Convertible bonds	<u>-</u>	<u>94,770</u>
	<u>\$ 5,494,720</u>	<u>\$ 3,440,905</u>
<u>Non-derivative financial assets - non-current</u>		
Financial assets mandatorily classified as FVTPL		
Private equity funds	\$ 42,033	\$ 45,408
Domestic unlisted shares	314,214	341,618
Overseas unlisted shares	<u>80,989</u>	<u>72,280</u>
	<u>\$ 437,236</u>	<u>\$ 459,306</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT

Investments in Equity Instruments at FVTOCI

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Domestic unlisted shares	\$ 139,069	\$ 230,267
Overseas unlisted shares	<u>221,235</u>	<u>406,165</u>
	<u>\$ 360,304</u>	<u>\$ 636,432</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Segregated foreign exchange deposit account for Offshore Funds (Note)	\$ 253,451	\$ -
Certificates of deposit	40,409	20,383
Time deposits with original maturities of more than 3 months	<u>-</u>	<u>35,890</u>
	<u>\$ 293,860</u>	<u>\$ 56,273</u>

As of December 31, 2019, the interest rate for time deposits with original maturities of more than 3 months was 1.75%. The Group assessed that the expected credit risk of above financial assets was not material because the credit risk has not increased significantly since initial recognition.

Refer to Note 31 for information relating to investments in financial assets at amortized cost pledged as security.

Note: The Group was approved by the Ministry of Finance in August 2020 to repatriate US\$9,673 thousand in accordance with “The Management, Utilization, and Taxation of Repatriated Offshore Funds Act” (the Act). The repatriated amount, net of tax, was deposited into segregated foreign exchange deposit account (segregated account). The deposit in segregated account is subject to restrictions based on the Act.

10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount - non-related parties	\$ 5,389,529	\$ 5,494,199
Gross carrying amount - related parties	<u>669,281</u>	<u>537,149</u>
	6,058,810	6,031,348
Less: Loss allowance	<u>(41,109)</u>	<u>(97,378)</u>
	<u>\$ 6,017,701</u>	<u>\$ 5,933,970</u>
<u>Other receivables</u>		
Tax refunds receivable	\$ 258,092	\$ 292,145
Factored accounts receivable	15,790	30,342
Convertible bonds redemption receivable	-	83,286
Others	<u>32,036</u>	<u>21,309</u>
	<u>\$ 305,918</u>	<u>\$ 427,082</u>

Trade Receivables

The average credit period of sales of goods was 30 to 90 days. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Group has delegated staff responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that an adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk is significantly reduced.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using an allowance matrix by reference to past default experience with the respective debtors and an analysis of each debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the loss allowance, which is based on the past due status of receivables, is not further distinguished according to different segments of the Group's customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are over two years past due, whichever occurs earlier. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's allowance matrix.

December 31, 2020

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Gross carrying amount	\$ 5,070,972	\$ 311,402	\$ 7,128	\$ 27	\$ -	\$ -	\$ 5,389,529
Loss allowance (lifetime expected credit losses)	(18,516)	(17,414)	(5,156)	(23)	-	-	(41,109)
Amortized cost	<u>\$ 5,052,456</u>	<u>\$ 293,988</u>	<u>\$ 1,972</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,348,420</u>

December 31, 2019

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Gross carrying amount	\$ 5,028,970	\$ 426,409	\$ 2,282	\$ 12,802	\$ 667	\$ 23,069	\$ 5,494,199
Loss allowance (lifetime expected credit losses)	(23,357)	(41,121)	(1,238)	(8,059)	(534)	(23,069)	(97,378)
Amortized cost	<u>\$ 5,005,613</u>	<u>\$ 385,288</u>	<u>\$ 1,044</u>	<u>\$ 4,743</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>\$ 5,396,821</u>

The movements of the loss allowance of trade receivables were as follows:

	For the Year Ended December 31	
	2020	2019
Balance at January 1	\$ 97,378	\$ 151,342
Add: Acquisitions through business combinations (Note 26)	4,151	-
Less: Amounts reversed	(60,241)	(53,964)
Less: Disposal of subsidiaries (Note 27)	<u>(179)</u>	<u>-</u>
Balance at December 31	<u>\$ 41,109</u>	<u>\$ 97,378</u>

Factored trade receivables that have not yet settled at end of period were as follows:

(In Thousands of Dollars)					
Factor	Factor Amount	Reclassified to Other Receivables	Advances Received - Unused	Prepayments	Annual Interest Rates on Advances Received (Used) (%)
<u>December 31, 2020</u>					
HSBC Bank	US\$ 690	US\$ 554	\$ -	\$ -	-
<u>December 31, 2019</u>					
HSBC Bank	US\$ 1,220	US\$ 1,012	-	-	-

The factor was HSBC Bank (Taiwan) Limited. This sale was without recourse while the Group shall pay only the necessary related charges.

11. INVENTORIES

	December 31	
	2020	2019
Raw materials	\$ 5,298,782	\$ 6,933,204
Work-in-process	3,525,646	2,672,047
Semi-finished goods	1,267,154	1,762,677
Finished goods	49,897	120,337
Merchandise	<u>-</u>	<u>44,459</u>
	<u>\$ 10,141,479</u>	<u>\$ 11,532,724</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2020 and 2019 were \$36,236,716 thousand and \$33,544,166 thousand, respectively.

The costs of goods sold for the years ended December 31, 2020 and 2019 included inventory write-downs of \$203,123 thousand and reversals of inventory write-downs of \$63,347 thousand, respectively. The reversals of previous write-downs resulted from an increase in market selling prices.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

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

Investor	Investee	Principal Activities	Proportion of Ownership		Remark
			2020	2019	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	-
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	-
	Emtops Electronics Corp.	Investment	100.00	100.00	-
	Phisontech Electronics Taiwan Corp.	Investment and trade	100.00	100.00	-
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	-	100.00	Remark 1
	Global Flash Limited	Investment and trade	100.00	100.00	-
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	-
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	-
	Regis Investment (Samoa) Limited	Investment	100.00	100.00	-
	Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	100.00
	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	-
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic products and technical support service and rendering of related services	-	97.69	Remark 3
Hefei Core Storage Electronic Limited	Hefei Yichao Electronics Technology Ltd.	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	-	100.00	Remark 3
	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	-	-	Remarks 2, 3
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	-
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale and trade of electronic products	100.00	100.00	-
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	100.00	-
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100.00	100.00	-
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	100.00	100.00	-
Emtops Electronics Corp.	Phison Technology Inc.	Sales and service office	100.00	100.00	-
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100.00	-	Remark 4

Remark 1: The company ended its operations in October 2020 and completed the liquidation procedures.

Remark 2: Hefei Core Storage Electronic Limited acquired 100% equity of Phisontech (Shenzhen) Limited from Global Flash Limited in July 2020. This transaction was regarded as a reorganization under common control.

Remark 3: The Group lost control of Hefei Core Storage Electronic Limited in November 2020. Therefore, Hefei Core Storage Electronic Limited and its subsidiaries were no longer included in the consolidated financial statements and transferred into investments accounted for using equity method (associates). Refer to Notes 13 and 27 for related information.

Remark 4: The Group acquired 100% equity of Super Storage Technology Corporation in July 2020. Refer to Note 26 for related information.

- b. Subsidiaries excluded from the consolidated financial statements: None.
- c. During the preparation of the consolidated financial statements, the substantial transactions between the group entities were fully eliminated.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	December 31	
	2020	2019
Unlisted shares		
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 1,973,587	\$ 390,993
Hefei Core Storage Electronic Limited	1,393,661	-
Hefei Xinpeng Technology Co., Ltd.	161,207	245,507
Epostar Electronics (BVI) Corporation	269,809	-
Nextorage Corporation	98,233	-
ProGrade Digital, Inc.	88,400	-
Microtops Design Corporation	22,977	24,403
PMS Technology Corporation	-	17,962
Kingston Solutions Inc.	-	965,294
	<u>\$ 4,007,874</u>	<u>\$ 1,644,159</u>

Refer to Tables 6 and 7 for the nature of activities, principal place of business and country of incorporation of the associates.

The Group invested JPY294,000 thousand in Nextorage Corporation, US\$2,785 thousand in ProGrade Digital, Inc., and CNY20,000 thousand in Hefei Xinpeng Technology Co., Ltd in 2020. As of December 31, 2020, the Group's percentages of ownership in Nextorage Corporation, ProGrade Digital, Inc., and Hefei Xinpeng Technology Co., Ltd. were 49%, 32.01% and 24.23%, respectively.

EpoStar Electronics (BVI) Corporation disposed of its subsidiary in February 2020, resulting in an increase in the carrying amount of the Group's investment at the end of the year and an increase in the Group's share of profit of associates for the year.

The Group disposed of its investment in Kingston Solutions Inc. to Kingston Technology Corporation, a non-related party, with \$1,781,640 thousand in September 2020, and recognized a gain on the disposal of investment of \$967,348 thousand.

The Group invested CNY62,000 thousand in HOSIN Global Electronics Co., Ltd. (SZ) in 2019.

The Group participated in 54,500 thousand shares capital increase of Hosin Global Electronics Co., Ltd. with 24.59% ownership (the amount of contribution is CNY54,500 thousand) in Hefei Core Storage Electronic Limited in November 2020. As of December 31, 2020, the Group's percentages of ownership in Hefei Core Storage Electronic Limited and HOSIN Global Electronics Co., Ltd. (SZ) were 24.41% and 34.43%, respectively.

As of December 31, 2020 and 2019, no investments in associates were individually material to the Group.

Aggregate information of associates that are not individually material

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
The Group's share of:		
Net income (loss) for the year	\$ 479,022	\$ (243,815)
Other comprehensive income (loss)	<u>82,329</u>	<u>(37)</u>
Total comprehensive income (loss) for the year	<u>\$ 561,351</u>	<u>\$ (243,852)</u>

The calculation of the investments accounted for using the equity method and the Group's share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2020 and 2019 were based on financial statements that had been audited.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Mechanical Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>									
Balance at January 1, 2019	\$ 813,738	\$ 23,680	\$ 2,045,471	\$ 654,966	\$ 51,623	\$ -	\$ 43,084	\$ -	\$ 3,632,562
Additions	145,069	-	21,094	300,999	15,097	48,358	8,998	-	539,615
Disposals	-	(14,290)	-	(94,124)	(10,525)	-	(7,192)	-	(126,131)
Effects of foreign currency exchange difference	-	-	-	(2,045)	(293)	-	(119)	-	(2,457)
Reclassification	-	-	25,340	10,015	-	-	580	-	35,935
Balance at December 31, 2019	<u>\$ 958,807</u>	<u>\$ 9,390</u>	<u>\$ 2,091,905</u>	<u>\$ 869,811</u>	<u>\$ 55,902</u>	<u>\$ 48,358</u>	<u>\$ 45,351</u>	<u>\$ -</u>	<u>\$ 4,079,524</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2019	\$ -	\$ 19,303	\$ 289,919	\$ 283,884	\$ 29,267	\$ -	\$ 19,958	\$ -	\$ 642,331
Disposals	-	(14,290)	-	(94,124)	(10,424)	-	(7,192)	-	(126,030)
Depreciation	-	1,334	62,558	189,625	13,177	4,102	11,223	-	282,019
Effects of foreign currency exchange difference	-	-	-	(1,443)	(224)	-	(79)	-	(1,746)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 6,347</u>	<u>\$ 352,477</u>	<u>\$ 377,942</u>	<u>\$ 31,796</u>	<u>\$ 4,102</u>	<u>\$ 23,910</u>	<u>\$ -</u>	<u>\$ 796,574</u>
Balance at December 31, 2019, net	<u>\$ 958,807</u>	<u>\$ 3,043</u>	<u>\$ 1,739,428</u>	<u>\$ 491,869</u>	<u>\$ 24,106</u>	<u>\$ 44,256</u>	<u>\$ 21,441</u>	<u>\$ -</u>	<u>\$ 3,282,950</u>
<u>Cost</u>									
Balance at January 1, 2020	\$ 958,807	\$ 9,390	\$ 2,091,905	\$ 869,811	\$ 55,902	\$ 48,358	\$ 45,351	\$ -	\$ 4,079,524
Additions	-	-	13,448	230,565	24,433	38,104	32,993	712,397	1,051,940
Acquisitions through business combinations	185,930	-	498,286	-	-	84,946	77,296	3,391	849,849
Disposals	-	-	-	(121,390)	(6,980)	(5,365)	(6,410)	-	(140,145)
Disposal of subsidiaries	-	-	-	(65,998)	(8,367)	-	(3,926)	-	(78,291)
Effects of foreign currency exchange difference	-	-	-	(510)	3	-	11	-	(496)
Reclassification	-	-	-	17,395	3	100	2,337	(3,391)	16,444
Balance at December 31, 2020	<u>\$ 1,144,737</u>	<u>\$ 9,390</u>	<u>\$ 2,603,639</u>	<u>\$ 929,873</u>	<u>\$ 64,994</u>	<u>\$ 166,143</u>	<u>\$ 147,652</u>	<u>\$ 712,397</u>	<u>\$ 5,778,825</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2020	\$ -	\$ 6,347	\$ 352,477	\$ 377,942	\$ 31,796	\$ 4,102	\$ 23,910	\$ -	\$ 796,574
Acquisitions through business combinations	-	-	95,470	-	-	41,795	29,360	-	166,625
Disposals	-	-	-	(121,295)	(6,963)	(5,311)	(4,117)	-	(137,686)
Disposal of subsidiaries	-	-	-	(45,702)	(6,593)	-	(2,985)	-	(55,280)
Depreciation	-	1,178	70,580	232,850	12,969	22,091	22,237	-	361,905
Effects of foreign currency exchange difference	-	-	-	116	17	-	14	-	147
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 7,525</u>	<u>\$ 518,527</u>	<u>\$ 443,911</u>	<u>\$ 31,226</u>	<u>\$ 62,627</u>	<u>\$ 68,419</u>	<u>\$ -</u>	<u>\$ 1,132,785</u>
Balance at December 31, 2020, net	<u>\$ 1,144,737</u>	<u>\$ 1,865</u>	<u>\$ 2,085,112</u>	<u>\$ 485,962</u>	<u>\$ 33,768</u>	<u>\$ 103,466</u>	<u>\$ 79,233</u>	<u>\$ 712,397</u>	<u>\$ 4,646,540</u>

To increase the scale of operations, the Corporation's board of directors resolved on January 17, 2020 to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Corporation. The total price of the project was approximately \$1,398,000 thousand. The Corporation financed the construction with its own funds. The construction period is from March 2020 to December 2021. In addition, the Corporation's board of directors resolved on November 12, 2020 to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Corporation. The total price of the project was approximately \$829,000 thousand. The Corporation financed the construction with its own funds. The construction period is from February 2021 to March 2022.

The Group acquired Super Storage Technology Corporation in July 2020. Refer to Note 26 for information of acquisition relating to the property, plant and equipment.

The Group lost control of Hefei Core Storage Electronic Limited in November 2020. Therefore, Hefei Core Storage Electronic Limited and its subsidiaries were no longer included in the consolidated financial statements. Refer to Note 27 for related information.

Property, plant and equipment pledged as collateral for bank borrowings were disclosed in Note 31.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Land improvements	7 years
Buildings	20-50 years
Buildings - electrical engineering	20 years
Testing equipment	3-5 years
Office equipment	3-7 years
Mechanical equipment	1-6 years
Other equipment	2-10 years

15. LEASE ARRANGEMENTS

a. Right-of-use assets

	December 31	
	2020	2019
<u>Carrying amounts</u>		
Buildings	\$ 27,169	\$ 32,058
Transportation equipment	1,106	782
Other assets	<u>4,109</u>	<u>-</u>
	<u>\$ 32,384</u>	<u>\$ 32,840</u>
	For the Year Ended December 31	
	2020	2019
Depreciation charge for right-of-use assets		
Buildings	\$ 12,709	\$ 10,575
Transportation equipment	668	627
Other assets	<u>2,465</u>	<u>-</u>
	<u>\$ 15,842</u>	<u>\$ 11,202</u>

Except for the depreciation, the Group had no significant additions, subleases, and impairment losses recognized on right-of-use assets for the years ended December 31, 2020 and 2019.

b. Lease liabilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Carrying amounts</u>		
Current	<u>\$ 16,420</u>	<u>\$ 12,520</u>
Non-current	<u>\$ 16,212</u>	<u>\$ 20,702</u>

Range of discount rate for lease liabilities was as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Buildings	2.08%-4.00%	2.55%-2.85%
Transportation equipment	0.58%-2.60%	2.60%
Other assets	2.08%	-

c. Other lease information

The Group leases certain transportation equipment, office and dormitory which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Group had elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

16. INTANGIBLE ASSETS

	Computer Software	Technology License Fees	Total
Balance at January 1, 2019	\$ 113,485	\$ 39,065	\$ 152,550
Additions	183,011	92,433	275,444
Amortization	(122,989)	(36,952)	(159,941)
Effects of foreign currency exchange differences	<u>(27)</u>	<u>-</u>	<u>(27)</u>
Balance at December 31, 2019	<u>\$ 173,480</u>	<u>\$ 94,546</u>	<u>\$ 268,026</u>
Balance at January 1, 2020	\$ 173,480	\$ 94,546	\$ 268,026
Additions	232,255	15,255	247,510
Acquisitions through business combinations (Note 26)	646	-	646
Amortization	(158,224)	(42,737)	(200,961)
Disposal of subsidiaries (Note 27)	(1,412)	-	(1,412)
Effects of foreign currency exchange differences	(10)	-	(10)
Reclassification	<u>95</u>	<u>-</u>	<u>95</u>
Balance at December 31, 2020	<u>\$ 246,830</u>	<u>\$ 67,064</u>	<u>\$ 313,894</u>

The above items of intangible assets are amortized on a straight-line basis over the following estimated useful lives of the assets:

Computer software	1-5 years
Technology license fees	1-8 years

17. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2020	2019
<u>Unsecured borrowings</u>		
Bank loans	<u>\$ 1,480,480</u>	<u>\$ -</u>
Annual interest rates	0.57%-1.07%	-

b. Long-term borrowings

	<u>December 31</u>	
	2020	2019
<u>Secured borrowings</u> (Note 31)		
Bank loans	\$ 226,122	\$ -
Less: Current portions	<u>(30,486)</u>	<u>-</u>
Long-term borrowings	<u>\$ 195,636</u>	<u>\$ -</u>
Annual interest rate	1.50%	-
Maturity date	January 2028	-

18. OTHER PAYABLES

	<u>December 31</u>	
	2020	2019
Salaries and bonuses payable	\$ 5,033,901	\$ 3,221,135
Others	<u>1,011,109</u>	<u>1,176,994</u>
	<u>\$ 6,045,010</u>	<u>\$ 4,398,129</u>

19. OTHER CURRENT LIABILITIES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Refund liabilities	\$ 490,929	\$ 419,506
Payables for purchases of equipment	30,499	35,810
Receipts under custody	42,321	29,245
Others	<u>41,459</u>	<u>35,183</u>
	<u>\$ 605,208</u>	<u>\$ 519,744</u>

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Corporation and some subsidiaries of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Corporation has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Corporation's defined benefit plan were as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Present value of defined benefit obligation	\$ 144,989	\$ 133,343
Fair value of plan assets	<u>(41,461)</u>	<u>(38,398)</u>
Net defined benefit liabilities	<u>\$ 103,528</u>	<u>\$ 94,945</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2019	\$ 127,656	\$ (34,829)	\$ 92,827
Service costs			
Current service costs	1,591	-	1,591
Net interest expense (income)	<u>1,532</u>	<u>(418)</u>	<u>1,114</u>
Recognized in profit or loss	<u>3,123</u>	<u>(418)</u>	<u>2,705</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,119)	(1,119)
Actuarial loss - changes in financial assumptions	8,565	-	8,565
Actuarial profit - experience adjustments	<u>(6,001)</u>	<u>-</u>	<u>(6,001)</u>
Recognized in other comprehensive income	<u>2,564</u>	<u>(1,119)</u>	<u>1,445</u>
Contributions from the employer	<u>-</u>	<u>(2,032)</u>	<u>(2,032)</u>
Balance at December 31, 2019	<u>\$ 133,343</u>	<u>\$ (38,398)</u>	<u>\$ 94,945</u>
Balance at January 1, 2020	\$ 133,343	\$ (38,398)	\$ 94,945
Service costs			
Current service costs	2,456	-	2,456
Net interest expense (income)	<u>1,066</u>	<u>(307)</u>	<u>759</u>
Recognized in profit or loss	<u>3,522</u>	<u>(307)</u>	<u>3,215</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,249)	(1,249)
Actuarial profit - changes in financial assumptions	(13,943)	-	(13,943)
Actuarial loss - experience adjustments	<u>22,626</u>	<u>-</u>	<u>22,626</u>
Recognized in other comprehensive income	<u>8,683</u>	<u>(1,249)</u>	<u>7,434</u>
Benefits paid	(559)	559	-
Contributions from the employer	<u>-</u>	<u>(2,066)</u>	<u>(2,066)</u>
Balance at December 31, 2020	<u>\$ 144,989</u>	<u>\$ (41,461)</u>	<u>\$ 103,528</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plan is as follows:

	For the Year Ended December 31	
	2020	2019
Operating costs	\$ 600	\$ 433
Marketing expenses	348	302
Administrative expenses	919	695
Research and development expenses	<u>1,348</u>	<u>1,275</u>
	<u>\$ 3,215</u>	<u>\$ 2,705</u>

Recognized in other comprehensive income was an actuarial loss of \$5,947 thousand and \$1,156 thousand in 2020 and 2019, respectively. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2020 and 2019 was \$48,230 thousand and \$42,283 thousand, respectively.

Through the defined benefit plan under the Labor Standards Law, the Corporation is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2020	2019
Discount rate	0.40%	0.80%
Expected rate of salary increase	3.00%	4.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2020	2019
Discount rate		
0.25% increase	<u>\$ (6,246)</u>	<u>\$ (5,430)</u>
0.25% decrease	<u>\$ 6,577</u>	<u>\$ 5,670</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 6,024</u>	<u>\$ 5,174</u>
0.25% decrease	<u>\$ (5,769)</u>	<u>\$ (4,971)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2020	2019
The expected contributions to the plan for the next year	<u>\$ 2,059</u>	<u>\$ 2,038</u>
The average duration of the defined benefit obligation	18 years	17 years

21. EQUITY

a. Common shares

	December 31	
	2020	2019
Number of shares authorized (in thousands)	<u>300,000</u>	<u>280,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 2,800,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,074</u>
Shares issued	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>

On November 13, 2018, an employee share option plan was approved by the Corporation's board of directors which was declared effective on November 28, 2018, after the Financial Supervisory Commission (FSC) approved this plan as shown in the FSC's issued document No. 1070344165. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2018, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities. After the expired date on November 27, 2019, employee share option of the plan in 2018 must not be granted anymore because there was no issuance of employee share options within above period.

On November 11, 2019, an employee share option plan was approved by the Corporation's board of directors which was declared effective on November 22, 2019, after the FSC approved this plan as shown in the FSC's issued document No. 1080336954. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2019, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

On March 27, 2020, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on April 10, 2020, after the FSC approved this plan as shown in the FSC's issued document No. 1090337137. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2020, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

Fully paid issued common shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

Of the Corporation's authorized capital shares, 29,000 thousand shares were reserved for the issuance of employee share options.

Refer to Note 25 for information relating to actual outstanding employee share options.

b. Capital surplus

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of common shares	\$ 6,237,434	\$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
<u>May only be used to offset a deficit</u>		
Expired share options	227	227
Changes in percentage of ownership interests in subsidiaries (2)	1,944	2,370
Share of changes in capital surplus of associates	-	335,315
<u>May not be used for any purpose</u>		
Employee share options	<u>197,810</u>	<u>-</u>
	<u>\$ 6,586,173</u>	<u>\$ 6,724,104</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).
- 2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions or from changes in capital surplus of subsidiaries accounted for using the equity method.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit until the accumulated legal capital reserve equals to the paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with the beginning balance of undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after the amendment, refer to Note 22(g) "employees' compensation and remuneration of directors and supervisors".

The Corporation's dividend distribution policy takes into consideration the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, the balance between retained earnings and dividends, and the Corporation's long-term financial plans. In accordance with the laws and regulations, the board of directors proposes a distribution plan on an annual basis, which should be resolved in the shareholder's meeting. Profit may be distributed as cash or share dividends; however, cash dividends should be at least 10% of the total dividends distributed.

The Corporation appropriates or reverses a special reserve in accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission. Distributions can be made out of any subsequent reversal of the debit to other equity items.

A legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2019 and 2018 were resolved in the shareholders' meeting on June 3, 2020 and June 12, 2019, respectively, and were as follows:

	Appropriation of Earnings	
	For Year 2019	For Year 2018
Legal reserve	\$ 455,816	\$ 431,812
(Reversal) special reserve	(204,802)	380,927
Cash dividends	2,561,962	2,561,962
Per share (NT\$) of cash dividends	13	13

The appropriation of earnings for 2020 had been proposed by the Corporation's board of directors on March 11, 2021. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 868,226	
Reversal of special reserve	(10,784)	
Cash dividends	4,532,702	\$23

The appropriation of earnings for 2020 are subject to the resolution of the shareholders in the shareholders' meeting to be held on May 28, 2021.

22. NET PROFIT FOR THE YEAR

a. Other gains and losses

	For the Year Ended December 31	
	2020	2019
Net (loss) gain on financial assets at FVTPL	\$ (23,814)	\$ 154,451
Gain (loss) on disposal of investments accounted for using the equity method (Notes 13 and 27)	5,202,580	(2,960)
Net foreign exchange losses	(318,756)	(138,374)
Others	<u>(3,711)</u>	<u>14,755</u>
	<u>\$ 4,856,299</u>	<u>\$ 27,872</u>

b. Interest income

For the Year Ended December 31
2020 **2019**

Bank deposits	\$ 36,672	\$ 52,922
Others	<u>6,321</u>	<u>5,551</u>
	<u>\$ 42,993</u>	<u>\$ 58,473</u>

c. Other income

For the Year Ended December 31
2020 **2019**

Dividend income	\$ 82,471	\$ 81,192
Rental income	13,942	2,478
Others	<u>334,227</u>	<u>216,727</u>
	<u>\$ 430,640</u>	<u>\$ 300,397</u>

d. Finance costs

For the Year Ended December 31
2020 **2019**

Interest on bank loans	\$ 4,181	\$ 1,085
Interest on lease liabilities	853	921
Others	<u>98</u>	<u>-</u>
	<u>\$ 5,132</u>	<u>\$ 2,006</u>

e. Depreciation and amortization

For the Year Ended December 31
2020 **2019**

Property, plant and equipment	\$ 361,905	\$ 282,019
Right-of-use assets	15,842	11,202
Intangible assets	<u>200,961</u>	<u>159,941</u>
	<u>\$ 578,708</u>	<u>\$ 453,162</u>
An analysis of depreciation by function		
Operating costs	\$ 96,095	\$ 54,672
Operating expenses	<u>281,652</u>	<u>238,549</u>
	<u>\$ 377,747</u>	<u>\$ 293,221</u>
An analysis of amortization by function		
Operating costs	\$ 70	\$ -
Operating expenses	<u>200,891</u>	<u>159,941</u>
	<u>\$ 200,961</u>	<u>\$ 159,941</u>

f. Employee benefits expense

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ 6,504,873	\$ 4,420,794
Post-employment benefits		
Defined contribution plan	117,770	96,078
Defined benefit plan (Note 20)	3,215	2,705
	<u>120,985</u>	<u>98,783</u>
Share-based payments		
Equity-settled	<u>197,810</u>	<u>-</u>
Other employee benefits		
Employee welfare	63,535	60,158
Food stipend	<u>65,228</u>	<u>48,902</u>
	<u>128,763</u>	<u>109,060</u>
Termination benefits	<u>93</u>	<u>1,160</u>
	<u>\$ 6,952,524</u>	<u>\$ 4,629,797</u>
Employee benefits		
Recognized in operating costs	\$ 445,794	\$ 240,521
Recognized in operating expenses	<u>6,506,730</u>	<u>4,389,276</u>
	<u>\$ 6,952,524</u>	<u>\$ 4,629,797</u>

g. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019, which have been approved by the Corporation's board of directors on March 11, 2021 and March 16, 2020, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2020	2019
Employees' compensation	9.66%	10.79%
Remuneration of directors and supervisors	0.43%	0.58%

Amount

	For the Year Ended December 31			
	2020		2019	
	Cash Dividends	Share Dividends	Cash Dividends	Share Dividends
Employees' compensation	\$ 1,000,000	\$ -	\$ 650,000	\$ -
Remuneration of directors and supervisors	45,000	-	35,000	-

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2020	2019
Foreign exchange gains	\$ 348,847	\$ 358,481
Foreign exchange losses	<u>(667,603)</u>	<u>(496,855)</u>
Net losses	<u>\$ (318,756)</u>	<u>\$ (138,374)</u>

23. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2020	2019
Current tax		
In respect of the current year	\$ 922,727	\$ 756,349
Adjustments for prior periods	(263,275)	33
Income tax on unappropriated earnings	<u>83,053</u>	<u>49,037</u>
	742,505	805,419
Deferred tax		
In respect of the current year	<u>244,173</u>	<u>(322)</u>
Income tax expense recognized in profit or loss	<u>\$ 986,678</u>	<u>\$ 805,097</u>

A reconciliation of accounting profit and income tax expense for 2020 and 2019 is as follows:

	For the Year Ended December 31	
	2020	2019
Profit before tax	<u>\$ 9,693,429</u>	<u>\$ 5,350,934</u>
Income tax expense calculated at the statutory rate	\$ 1,938,686	\$ 1,090,690
Nondeductible expenses in determining taxable income	161	-
Unrecognized deductible temporary differences	(663,422)	7,436
Tax-exempt income	(488,591)	(343,304)
Income tax on unappropriated earnings	83,053	49,037
Effect of different tax rate of group entities operating in other jurisdictions	352,466	1,205
Effect of repatriation of overseas surplus	27,600	-
Adjustments for prior years' tax	<u>(263,275)</u>	<u>33</u>
Income tax expense recognized in profit or loss	<u>\$ 986,678</u>	<u>\$ 805,097</u>

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Group only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

The appropriation of the earnings is uncertain and is subject to approval at the shareholders' meeting in 2021; thus, the potential consequences of income tax on the 2020 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2020	2019
<u>Deferred income tax</u>		
In respect of the current year		
Actuarial gain on defined benefit plan	\$ 1,487	\$ 289
Translation of foreign operations	<u>(30,630)</u>	<u>13,669</u>
Total income tax recognized in other comprehensive income	<u>\$ (29,143)</u>	<u>\$ 13,958</u>

c. Current tax assets and liabilities

	December 31	
	2020	2019
Current tax assets		
Tax refunds receivable	<u>\$ 4,635</u>	<u>\$ 45,499</u>
Current tax liabilities		
Income tax payable	<u>\$ 93,608</u>	<u>\$ 602,714</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and liabilities were as follows:

For the year ended December 31, 2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Acquisitions through Business Combinations	Disposal of Subsidiaries	Closing Balance
<u>Deferred tax assets</u>							
Inventory write-downs	\$ 67,579	\$ 39,323	\$ -	\$ -	\$ -	\$ -	\$ 106,902
Refund liabilities	83,901	14,285	-	-	-	-	98,186
Defined benefit obligation	18,989	230	1,487	-	-	-	20,706
Unrealized exchange losses	107,670	12,655	-	-	-	-	120,325
Impairment loss on financial assets	25,508	(250)	-	-	-	-	25,258
Exchange differences on translating foreign operations	30,630	-	(30,630)	-	-	-	-
Others	12,455	(7,114)	-	6	847	(1,611)	4,583
	<u>\$ 346,732</u>	<u>\$ 59,129</u>	<u>\$ (29,143)</u>	<u>\$ 6</u>	<u>\$ 847</u>	<u>\$ (1,611)</u>	<u>\$ 375,960</u>
<u>Deferred tax liabilities</u>							
Share of gains of subsidiaries and associates	\$ 21,930	\$ 303,511	\$ -	\$ -	\$ -	\$ -	\$ 325,441
Others	-	(209)	-	-	209	-	-
	<u>\$ 21,930</u>	<u>\$ 303,302</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209</u>	<u>\$ -</u>	<u>\$ 325,441</u>

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Acquisitions through Business Combinations	Disposal of Subsidiaries	Closing Balance
<u>Deferred tax assets</u>							
Inventory write-downs	\$ 80,319	\$ (12,740)	\$ -	\$ -	\$ -	\$ -	\$ 67,579
Refund liabilities	37,184	46,717	-	-	-	-	83,901
Defined benefit obligation	18,565	135	289	-	-	-	18,989
Unrealized exchange losses	85,242	22,423	-	5	-	-	107,670
Impairment loss on financial assets	31,801	(6,293)	-	-	-	-	25,508
Exchange differences on translating foreign operations	16,961	-	13,669	-	-	-	30,630
Share of losses of subsidiaries and associates	13,110	(13,110)	-	-	-	-	-
Others	27,381	(14,880)	-	(46)	-	-	12,455
	<u>\$ 310,563</u>	<u>\$ 22,252</u>	<u>\$ 13,958</u>	<u>\$ (41)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,732</u>
<u>Deferred tax liabilities</u>							
Share of gains of subsidiaries and associates	\$ -	\$ 21,930	\$ -	\$ -	\$ -	\$ -	\$ 21,930

e. Income tax assessments

<u>Associate</u>	<u>For the Year Ended</u>
Phison Electronics Corp.	2018
Lian Xu Dong Investment Corporation	2018
Emtops Electronics Corp.	2018
Ostek Corporation	2018
Phisontech Electronics Taiwan Corp.	2018
Memoryexchange Corporation	2018
Super Storage Technology Corporation	2018

24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2020	2019
Basic earnings per share	<u>\$ 44.14</u>	<u>\$ 23.05</u>
Diluted earnings per share	<u>\$ 43.01</u>	<u>\$ 22.78</u>

The earnings and weighted-average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2020	2019
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 8,699,044</u>	<u>\$ 4,543,489</u>
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 8,699,044</u>	<u>\$ 4,543,489</u>

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2020	2019
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074
Effect of potentially dilutive common shares:		
Employees' compensation	3,511	2,367
Employees' stock options	<u>1,656</u>	<u>-</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>202,241</u>	<u>199,441</u>

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

25. SHARE-BASED PAYMENT

a. Employee share option plan

In accordance with employee share option plan approved in 2019, qualified employees of the Corporation and its subsidiaries were granted 8,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Corporation. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Corporation's ordinary shares on the grant date. For any subsequent changes in the Corporation's capital surplus, the exercise price is adjusted accordingly. In addition, with the consent of the share option holders, the Corporation retracted and cancelled 6,000 thousand units of issued options and replaced them with employee share option plan approved in 2020.

Information on employee share options is as follows:

	For the Year Ended December 31			
	2020		2019	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at January 1	6,000	\$ 340	-	\$ -
Options cancelled	(6,000)	340	-	-
Options granted	2,000	262	6,000	340
Options forfeited	<u>(24)</u>	262	<u>-</u>	-
Balance at December 31	<u>1,976</u>	262	<u>6,000</u>	340
Options exercisable, end of year	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 59.63</u>		<u>\$ 70.44</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model are as follows:

	For the Year Ended December 31	
	2020	2019
Grant-date share price	\$262	\$340
Exercise price	\$262	\$340
Expected volatility	35.27%-35.45%	31.30%-31.79%
Expected dividend yield	-	-
Expected life	3 years	3 years
Risk-free interest rate	0.20%-0.22%	0.52%-0.53%

In accordance with employee share option plan approved in 2020, qualified employees of the Corporation and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Corporation. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Corporation's ordinary shares on the grant date. For any subsequent changes in the Corporation's capital surplus, the exercise price is adjusted accordingly.

	For the Year Ended December 31, 2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Options granted	6,000	\$ 262
Options forfeited	<u>(165)</u>	262
Balance at December 31	<u>5,835</u>	262
Options exercisable, end of year	<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 59.63</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model are as follows:

	Input
Grant-date share price	\$262
Exercise price	\$262
Expected volatility	35.27%-35.45%
Expected dividend yield	-
Expected life	3 years
Risk-free interest rate	0.20%-0.22%

Information on outstanding options is as follows:

	December 31, 2020
Range of exercise price (\$)	\$262
Weighted-average remaining contractual life (in years)	2.75 years

Compensation costs recognized were \$197,810 thousand for the year ended December 31, 2020.

26. BUSINESS COMBINATIONS

Based on the Group's development strategy, Phisontech Electronics Taiwan Corp., a subsidiary of the Group, acquired 100% ownership in Super Storage Technology Corporation by means of a share exchange at NT\$13 per share in July 2020.

Associated costs of acquisition of \$2,460 thousand were excluded from the consideration transferred and were recognized as other expenses.

- a. Assets acquired and liabilities assumed at the date of acquisition

	July 1, 2020
Current assets	
Cash and cash equivalents	\$ 136,524
Accounts receivable, net	39,020
Inventories	6,120
Others	6,883
Non-current assets	
Financial assets at fair value through other comprehensive income	4,500
Land	185,930
Buildings, net	402,816
Mechanical equipment, net	43,151
Other equipment, net	47,936
Construction in progress	3,391
Intangible assets, net	646
Others	903
Current liabilities	
Short-term borrowings	(30,000)
Accounts payable	(2,676)
Other payables	(44,607)
Others	(9,446)
Non-current liabilities	
Long-term borrowings	(332,822)
Others	<u>(5,315)</u>
	<u>\$ 452,954</u>

b. Net cash outflow on the acquisition of subsidiaries

	July 1, 2020
Consideration paid in cash	\$ 452,954
Less: Cash and cash equivalent acquired	<u>(136,524)</u>
	<u>\$ 316,430</u>

27. DISPOSAL OF SUBSIDIARIES

On August 4, 2020, The board of directors resolved that Core Storage Electronic (Samoa) Limited, a subsidiary of the Corporation, disposed 46.48% ownership of Hefei Core Storage Electronic Limited at CNY6 per contribution (the disposed amount of contribution was CNY103,000 thousand), and the disposal amount was CNY618,000 thousand. The transaction was settled in November 2020. As the Group lost control of Hefei Core Storage Electronic Limited and its subsidiaries, it was no longer to include them in the consolidated financial statements and the Group transferred the residual ownership into investments accounted for using equity method (associates) at its fair value.

a. Analysis of assets and liabilities on the date control was lost

	Hefei Core Storage Electronic Limited and Its Subsidiaries
Current assets	
Cash and cash equivalents	\$ 957,833
Financial assets at amortized cost	36,577
Accounts receivable	154,937
Inventories	146,162
Others	69,179
Non-current assets	
Property, plant and equipment	23,011
Intangible assets	1,412
Investments accounted for using the equity method	159,552
Others	5,693
Current liabilities	
Payables	(114,996)
Other payables	(43,209)
Others	(48,980)
Non-current liabilities	
Others	<u>(3,000)</u>
Net assets of disposal	<u>\$ 1,344,171</u>

b. Gain on disposal of subsidiaries

	Hefei Core Storage Electronic Limited and Its Subsidiaries
Consideration received	\$ 2,670,895
Net assets of disposal	(1,344,171)
Non-controlling interests	60,659
Reclassification of equity in respect of subsidiaries	(104,099)
Retained investment at fair value	2,809,567
Bank fees	<u>2</u>
Gain on disposal	<u>\$ 4,092,853</u>

c. Net cash inflow on disposal of subsidiaries

	Hefei Core Storage Electronic Limited and Its Subsidiaries
Consideration received	\$ 2,670,895
Less: Cash and cash equivalents balance disposed of	<u>(957,833)</u>
	<u>\$ 1,713,062</u>

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings and other equities).

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

29. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The Group's management considers the carrying amounts recognized in the consolidated financial statements for financial assets and financial liabilities not carried at fair value to approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 505,377	\$ -	\$ -	\$ 505,377
Domestic unlisted shares	-	-	314,214	314,214
Overseas unlisted shares	-	-	80,989	80,989
Domestic private equity funds	-	-	42,033	42,033
Beneficiary certificates - open-end funds	<u>4,989,343</u>	<u>-</u>	<u>-</u>	<u>4,989,343</u>
	<u>\$ 5,494,720</u>	<u>\$ -</u>	<u>\$ 437,236</u>	<u>\$ 5,931,956</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 139,069	\$ 139,069
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>221,235</u>	<u>221,235</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,304</u>	<u>\$ 360,304</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 529,538	\$ -	\$ -	\$ 529,538
Domestic unlisted shares	-	-	341,618	341,618
Overseas unlisted shares	-	-	72,280	72,280
Domestic private equity funds	-	-	45,408	45,408
Beneficiary certificates - open-end funds	2,816,597	-	-	2,816,597
Convertible bonds	-	-	94,770	94,770
	<u>\$ 3,346,135</u>	<u>\$ -</u>	<u>\$ 554,076</u>	<u>\$ 3,900,211</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 230,267	\$ 230,267
Overseas unlisted shares	-	-	406,165	406,165
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 636,432</u>	<u>\$ 636,432</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2020

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2020	\$ 45,408	\$ 94,770	\$ 413,898	\$ 636,432	\$ 1,190,508
Recognized in profit or loss	(3,375)	(2,391)	(6,633)	-	(12,399)
Recognized in other comprehensive income	-	-	-	(107,664)	(107,664)
Additions	-	-	7,078	3,825	10,903
Disposals and proceeds from capital reductions	-	(92,379)	(19,140)	(176,789)	(288,308)
Acquisitions through business combinations	-	-	-	4,500	4,500
Balance at December 31, 2020	<u>\$ 42,033</u>	<u>\$ -</u>	<u>\$ 395,203</u>	<u>\$ 360,304</u>	<u>\$ 797,540</u>

For the year ended December 31, 2019

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2019	\$ 47,366	\$ 85,288	\$ 380,423	\$ 450,397	\$ 963,474
Recognized in profit or loss	(1,958)	(5,134)	(10,072)	-	(17,164)
Recognized in other comprehensive income	-	-	-	265,956	265,956
Additions	-	92,379	52,277	33,160	177,816
Disposals and proceeds from capital reductions	-	(77,763)	(8,730)	(112,653)	(199,146)
Effects of foreign currency exchange differences	-	-	-	(428)	(428)
Balance at December 31, 2019	<u>\$ 45,408</u>	<u>\$ 94,770</u>	<u>\$ 413,898</u>	<u>\$ 636,432</u>	<u>\$ 1,190,508</u>

3) Valuation techniques and inputs applied for the purpose of Level 3 fair value measurement

- a) The fair values of convertible bonds are determined using the Binary Tree Evaluation Model and option pricing models where the significant unobservable input is historical volatility. As of December 31, 2019, the historical volatility used was 49.88%.
- b) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference between the unlisted equity securities and analogous subjects into consideration, the values of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease in the discount for the lack of marketability used in isolation would result in an increase in fair value.

	December 31	
	2020	2019
Discount for lack of marketability	15%	15%

- c) The fair values of unlisted equity securities - foreign were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests, the discount for lack of marketability and the weighted-average cost of capital (WACC) would result in increases in fair value. A decrease in sustainable revenue growth rates would result in a decrease in fair value.

	December 31	
	2020	2019
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	1.28-2.40%	2%
WACC	11.49-16.66%	12.78-14.39%

- d) The fair values of unlisted equity securities - domestic and foreign and private equity funds were determined using the asset-based approach. In order to reflect the overall value of the Corporation or business, the total market values of the individual assets and individual liabilities of the evaluation target are evaluated. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests and the discount for a lack of marketability would result in increases in fair value.

	December 31	
	2020	2019
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	<u>December 31</u>	
	2020	2019
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as FVTPL	\$ 5,931,956	\$ 3,900,211
Financial assets at amortized cost (Note 1)	21,578,601	16,622,582
Financial assets at FVTOCI		
Equity instruments	360,304	636,432
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 2)	11,212,515	8,040,922

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, accounts receivable, and other receivables.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payable, other payables, current portion of long-term borrowings, long-term borrowings, and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables, borrowings, and lease liabilities. The Group's financial management department provides services to the business unit and coordinates access to domestic and international financial markets. The risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency rates and interest rates.

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. To avoid the decrease in foreign currency assets and adverse fluctuations of future cash flows resulting from changes in foreign currency exchange rates, the Group used foreign currency borrowings to hedge risks of foreign currency exchange rates. The gain or loss caused by changes in foreign currency exchange rates will be offset by profit or loss from the hedge. As a result, the market risk is immaterial.

For the carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period, refer to Note 34.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

The following table details the Group's sensitivity to a 6% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 6%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts its translation at the end of the reporting period for a 6% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with the New Taiwan dollar strengthening 6% against the relevant currency. For a 6% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	Impact of USD	
	For the Year Ended December 31	
	2020	2019
Profit or loss	\$ 299,803	\$ 322,088

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group held bank deposits at floating interest rates.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2020	2019
Fair value interest rate risk		
Financial assets	\$ 4,764,683	\$ 2,589,358
Financial liabilities	1,485,112	33,222
Cash flow interest rate risk		
Financial assets	10,490,173	7,672,079
Financial liabilities	254,122	-

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2020 and 2019 would increase by \$1,024 thousand and \$767 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic listed and unlisted stock, convertible bonds, private equity funds and beneficiary certificates.

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2020 and 2019 would have increased/decreased by \$59,320 thousand and \$39,002 thousand respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the years ended December 31, 2020 and 2019 would have increased/decreased by \$3,603 thousand and \$6,364 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to a failure of counterparties to discharge an obligation and financial guarantees provided by the Group, comes from the carrying amounts of the respective recognized financial assets as stated in the consolidated balance sheets.

The targets of the aforementioned evaluation are financial assets that could potentially be influenced by the Group's counterparties defaulting on their contractual obligations and contracts with positive fair values as of the balance sheet date. The customers of the Group are financial institutions or manufacturers with good credit ratings; and thus, there is no expected material credit risk.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity.

a) Financing facilities

	December 31	
	2020	2019
Unsecured bank facilities:		
Amount used	\$ 2,640,480	\$ 1,660,000
Amount unused	<u>7,167,920</u>	<u>7,858,400</u>
	<u>\$ 9,808,400</u>	<u>\$ 9,518,400</u>
Secured bank facilities:		
Amount used	\$ 226,122	\$ -
Amount unused	<u>-</u>	<u>-</u>
	<u>\$ 226,122</u>	<u>\$ -</u>

b) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay.

	December 31, 2020				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,248,851	\$ 2,091,340	\$ 4,254,344	\$ -	\$ -
Fixed interest rate liabilities	783,728	669,983	-	-	-
Variable interest rate liabilities	2,831	5,661	53,276	134,676	70,144
Lease liabilities	<u>1,438</u>	<u>2,877</u>	<u>12,572</u>	<u>16,646</u>	<u>-</u>
	<u>\$ 4,036,848</u>	<u>\$ 2,769,861</u>	<u>\$ 4,320,192</u>	<u>\$ 151,322</u>	<u>\$ 70,144</u>
	December 31, 2019				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,172,708	\$ 1,995,386	\$ 3,475,408	\$ -	\$ -
Lease liabilities	<u>1,110</u>	<u>2,220</u>	<u>9,934</u>	<u>21,433</u>	<u>-</u>
	<u>\$ 3,173,818</u>	<u>\$ 1,997,606</u>	<u>\$ 3,485,342</u>	<u>\$ 21,433</u>	<u>\$ -</u>

e. Information on transfers of financial assets

Refer to Note 10 for more information relating to the Group's factored trade receivables.

30. RELATED PARTY TRANSACTIONS

Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationships

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related party
Kioxia America, Inc.	Other related party (Note 1)
Kioxia Corporation	Other related party (Note 2)
Kioxia Taiwan Corporation	Other related party (Note 3)
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
Super Storage Technology Corporation	Other related party (Note 4)
Solid State Storage Technology Corporation Hsinchu Science Park Branch	Other related party
Kingston Solutions Inc.	Associate (Note 5)
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate

(Continued)

Related Party	Relationship
Epostar Electronics Corporation	Associate
Shenzhen EpoStar Electronics Limited Co.	Associate (Note 6)
Hosin Global Electronics Co., Ltd. (HK)	Associate
Hefei Datang Storage Technology Co., Ltd.	Associate
SiliTai Electronics Co., Limited	Associate
Hosin Global Electronics Co., Ltd. (SZ)	Associate
Hefei Core Storage Electronic Limited	Associate (Note 7)
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Associate
Wang Chih Ling	Board of subsidiary, Hefei Core Storage Electronic Limited (Note 7)
Lin Wai	Board of subsidiary, Hefei Core Storage Electronic Limited (Note 7) (Concluded)

Note 1: Toshiba Memory America, Inc. was renamed as Kioxia America, Inc. on October 1, 2019.

Note 2: Toshiba Memory Corporation was renamed as Kioxia Corporation on October 1, 2019.

Note 3: Toshiba Memory Taiwan Corporation was renamed as Kioxia Taiwan Corporation on October 1, 2019.

Note 4: Starting from July 1, 2020, Super Storage Technology Corporation became a subsidiary of the Group.

Note 5: Starting from September 4, 2020, Kingston Solutions Inc. was no longer a related party of the Group.

Note 6: Starting from February 26, 2020, Shenzhen EpoStar Electronics Limited Co. was no longer a related party of the Group.

Note 7: Starting from November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and became an associate of the Group.

b. Operating revenue

Related Party Categories/Name	For the Year Ended December 31	
	2020	2019
Associates	\$ 1,381,547	\$ 1,323,270
Other related parties	<u>1,997,894</u>	<u>1,932,615</u>
	<u>\$ 3,379,441</u>	<u>\$ 3,255,885</u>

The terms of sales to related parties were similar to those for third parties.

c. Operating costs

1) Purchase of goods

Related Party Categories/Name	For the Year Ended December 31	
	2020	2019
Associates	\$ 318,062	\$ 1,462,239
Other related parties		
Kioxia Taiwan Corporation	9,876,557	11,432,366
Others	<u>718,385</u>	<u>1,437,493</u>
	<u>\$ 10,913,004</u>	<u>\$ 14,332,098</u>

2) Processing costs

Related Party Categories/Name	For the Year Ended December 31	
	2020	2019
Associates	\$ 42	\$ 458
Other related parties	<u>1,943,977</u>	<u>2,385,170</u>
	<u>\$ 1,944,019</u>	<u>\$ 2,385,628</u>

The terms of operating costs from related parties were similar to those for third parties.

d. Receivables from related parties

Related Party Categories/Name	December 31	
	2020	2019
Associates	\$ 347,868	\$ 246,653
Other related parties	<u>321,413</u>	<u>290,496</u>
	<u>\$ 669,281</u>	<u>\$ 537,149</u>

The outstanding trade receivables from related parties are unsecured. No bad debt expense was recognized for the allowance for impaired trade receivables with respect to the amounts owed by related parties in 2020 and 2019.

e. Payables to related parties

Related Party Categories/Name	December 31	
	2020	2019
Associates	\$ 17,918	\$ 29,796
Other related parties		
Kioxia Taiwan Corporation	1,063,257	1,034,293
Others	<u>208,547</u>	<u>320,008</u>
	<u>\$ 1,289,722</u>	<u>\$ 1,384,097</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ 511,167	\$ 279,451
Post-employment benefits	3,116	2,624
Termination benefits	-	643
Share-based payments	78,476	-
Other employee benefits	<u>5,726</u>	<u>3,442</u>
	<u>\$ 598,485</u>	<u>\$ 286,160</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

g. Issuance of ordinary shares for cash by subsidiary

1) Hefei Core Storage Electronic Limited

On February 1, 2019, it was resolved in the shareholders' meeting of Hefei Core Storage Electronic Limited to issue ordinary shares which amounted to \$27,250 thousand (CNY5,950 thousand). The board of directors of Hefei Core Storage Electronic Limited, Wang Chih Ling and Lin Wai, each funded \$8,175 thousand.

2) Phisontech Electronics Taiwan Corp.

On February 11, 2020, the Group purchased Phisontech Electronics Taiwan Corp.'s 54,000 thousand ordinary shares for \$540,000 thousand through capital increase by cash. As of December 31, 2020, the Group's shareholding percentage in Phisontech Electronics Taiwan Corp. was 100%.

3) Regis Investment (Samoa) Limited

On September 1, 2020, the Group purchased Regis Investment (Samoa) Limited 8,900 thousand shares for USD 8,900 thousand through capital increase. As of December 31, 2020, the Group's shareholding percentage in Regis Investment (Samoa) Limited was 100%.

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for the tariff of imported raw materials and bank borrowings:

	December 31	
	2020	2019
Refundable deposits for customs duties - certificates of deposit (financial assets at amortized cost - current)	<u>\$ 40,409</u>	<u>\$ 20,383</u>
Buildings	<u>\$ 396,422</u>	<u>\$ -</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2020 and 2019 were as follows:

Significant Commitments

	December 31	
	2020	2019
Unused letters of credit	<u>\$ 1,160,000</u>	<u>\$ 1,660,000</u>

33. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On November 30, 2020, The board of directors resolved that Core Storage Electronic (Samoa) Limited, a subsidiary of the Corporation will participate in 54,095 thousand shares capital increase of Hosin Global Electronics Co., Ltd. with 24.41% residual ownership (the amount of contribution is CNY54,095 thousand) in Hefei Core Storage Electronic Limited. The transaction was settled in February 2021, the Group's shareholding percentage in Hosin Global Electronics Co., Ltd (SZ) was 44.35%.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' monetary financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

In Thousands of New Taiwan Dollars and Foreign Currencies

	December 31, 2020		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 312,127	28.4800	\$ 8,889,370
CNY (CNY:NTD)	67,468	4.3770	295,309
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	136,680	28.4800	3,892,659

	December 31, 2019		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 255,830	29.9800	\$ 7,669,784
USD (USD:CNY)	9,023	6.9762	270,504
CNY (CNY:NTD)	34,065	4.3050	146,651
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	85,796	29.9800	2,572,158

For the years ended December 31, 2020 and 2019, (realized and unrealized) net foreign exchange losses were \$318,756 thousand and \$138,374 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

35. OTHER SIGNIFICANT EVENTS

- a. When considering the impact of the COVID-19 pandemic, the Group assessed that the pandemic had no significant influence on its finance and operations, and there were no doubts about its ability to continue as a going concern in relation to the recognition of an impairment loss and the risk of financing.
- b. The Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. The Corporation evaluated that its finance and operations had not yet been affected. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center (“Investors Protection Center”) had filed two civil actions respectively: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim compensation damage of \$697,389 thousand against the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation has already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. With regard to the aforementioned civil actions filed by Investors Protection Center, the possible consequences or developments resulting from litigations could not be assessed by the Corporation, but it was considered to have no significant influence to its finance and operations at the present stage.

36. ADDITIONAL DISCLOSURES

a. Information about significant transactions

- 1) Financing provided to others. (None)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 2)
- 5) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
- 9) Trading in derivative instruments. (None)
- 10) Other: Intercompany relationships and significant intercompany transactions. (Table 5)

b. Information of investees. (Table 6)

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 7)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 8)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 8)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes. (None)

- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)
- d. Information of major shareholders : List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder. (Table 9)

37. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments include departments that design and sell flash memory controllers and make investments.

a. Segment revenue and results

The following was an analysis of the Group's revenue and results by reportable segments:

	Segment Revenue		Segment Profit (Loss)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Department that designs and sells flash memory controllers	\$ 48,496,522	\$ 44,693,441	\$ 3,891,125	\$ 5,185,563
Investment department	-	-	(1,518)	24,450
Total operating segments	<u>\$ 48,496,522</u>	<u>\$ 44,693,441</u>	3,889,607	5,210,013
Other gains and losses			4,856,299	27,872
Share of profits (losses) of associates			479,022	(243,815)
Interest income			42,993	58,473
Other income			430,640	300,397
Financial costs			<u>(5,132)</u>	<u>(2,006)</u>
Profit before income tax			<u>\$ 9,693,429</u>	<u>\$ 5,350,934</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the years 2020 and 2019.

b. Segment assets and liabilities

The Group does not report segment assets and liabilities or other segment information to the chief operating decision maker. Therefore, no information is disclosed.

c. Revenue from major products and services

The following is an analysis of the Group's revenue of its major products and services:

	For the Year Ended December 31	
	2020	2019
Sales of nand flash controller and application products etc.	\$ 48,307,304	\$ 44,336,703
	5	
	6	
	1	
	2	
	1	
	0	
Services income	2 <u>189,218</u>	<u>356,738</u>
	<u>\$ 48,496,522</u>	<u>\$ 44,693,441</u>

d. Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2020	2019	2020	2019
Asia	\$ 33,939,905	\$ 30,003,289	\$ 4,966,295	\$ 3,583,816
America	10,534,411	10,225,567	26,523	-
Europe	3,865,801	4,209,463	-	-
Australia	151,575	254,547	-	-
Others	<u>4,830</u>	<u>575</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,496,522</u>	<u>\$ 44,693,441</u>	<u>\$ 4,992,818</u>	<u>\$ 3,583,816</u>

Revenue was categorized depending on clients' locations. Non-current assets refer to property, plant and equipment, right-of-use assets, and intangible assets.

e. Information about major customers

There are no single customer contributed 10% or more to the Group's revenue for 2020.

Included in revenue arising from the sale of nand flash, controller and application products is revenue of approximately \$5,289,287 thousand which arose from sales to the Group's largest customer. Except for the aforementioned, no other single customer contributed 10% or more to the Group's revenue for 2019.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note	
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value		
Phison Electronics Corp.	<u>Beneficiary certificates - open-end funds</u>								
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 206,526	-	\$ 206,526	Note 3	
	FSITC Taiwan Money Market Fund	-	Same as above	13,369	206,334	-	206,334	Note 3	
	Franklin Templeton SinoAm Money Market Fund	-	Same as above	20,685	215,711	-	215,711	Note 3	
	Yuanta De-Li Money Market Fund	-	Same as above	9,298	152,850	-	152,850	Note 3	
	Jih Sun Money Market Fund	-	Same as above	13,767	205,809	-	205,809	Note 3	
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	16,113	203,552	-	203,552	Note 3	
	CTBC Hwa-win Money Market Fund	-	Same as above	18,239	202,588	-	202,588	Note 3	
	Prudential Financial Money Market Fund	-	Same as above	12,070	192,573	-	192,573	Note 3	
	Eastspring Investments Well Pool Money Market Fund	-	Same as above	14,734	202,042	-	202,042	Note 3	
	Taishin 1699 Money Market Fund	-	Same as above	14,809	202,082	-	202,082	Note 3	
	Taishin Ta-Chong Money Market Fund	-	Same as above	14,102	201,946	-	201,946	Note 3	
	TCB Taiwan Money Market Fund	-	Same as above	19,716	201,843	-	201,843	Note 3	
	Capital Money Market Fund	-	Same as above	12,416	201,952	-	201,952	Note 3	
	Yuanta De-Bao Money Market Fund	-	Same as above	4,130	50,008	-	50,008	Note 3	
	Yuanta Wan Tai Money Market Fund	-	Same as above	9,834	150,020	-	150,020	Note 3	
	Cathay Taiwan Money Market Fund	-	Same as above	15,959	200,034	-	200,034	Note 3	
	FSITC Money Market	-	Same as above	556	100,019	-	100,019	Note 3	
	Upamc James Bond Money Market Fund	-	Same as above	11,878	200,031	-	200,031	Note 3	
	Nomura Taiwan Money Market Fund	-	Same as above	12,165	200,035	-	200,035	Note 3	
	Fubon Chi-Hsiang Money Market Fund	-	Same as above	12,657	200,030	-	200,030	Note 3	
	Fuh Hwa You Li Money Market Fund	-	Same as above	14,732	200,031	-	200,031	Note 3	
	Fuh Hwa Money Market	-	Same as above	13,753	200,029	-	200,029	Note 3	
	Hua Nan Phoenix Money Market Fund	-	Same as above	12,208	200,034	-	200,034	Note 3	
	Hua Nan Kirin Money Market Fund	-	Same as above	16,579	200,032	-	200,032	Note 3	
	Union Money Market Fund	-	Same as above	15,029	200,038	-	200,038	Note 3	
		<u>Common shares</u>							
		Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	110,412	0.89	110,412	Note 4
		Apacer Technology Inc.	-	Same as above	10,050	394,965	9.96	394,965	Note 4
		JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	18,350	0.67	18,350	Note 5
		AppWorks Fund II Co., Ltd.	-	Same as above	7,500	213,729	11.11	213,729	Note 5
		Innorich Venture Capital Corp.	-	Same as above	3,000	17,841	5.61	17,841	Note 5
		AppWorks Fund I Co., Ltd.	-	Same as above	728	12,681	18.75	12,681	Note 5
	Acer Synergy Tech Corp.	-	Same as above	900	32,024	6.91	32,024	Note 5	
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Same as above	50,000	37,939	1.08	37,939	Note 5	
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	529	-	0.60	-	-	

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	\$ 32,165	19.00	\$ 32,165	Note 5
	THLight Co., Ltd.	-	Same as above	6,388	-	13.19	-	-
	UD INFO Corp.	-	Same as above	963	80,991	17.65	80,991	Note 5
	GeoThings, Inc.	-	Same as above	150	-	5.36	-	-
	Ironyun Incorporated (preference shares)	-	Same as above	5,000	-	5.64	-	-
	Gospal Ltd.	-	Same as above	811,857	2,014	3.40	2,014	Note 5
	H3 Platform, Inc.	-	Same as above	18,400	12,895	12.14	12,895	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Same as above	11,966	62,303	17.16	62,303	Note 5
	Gomore Inc.	-	Same as above	16,925	8,879	3.39	8,879	Note 5
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	42,033	3.81	42,033	Note 5
	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,652	-	30,652	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	2,424	30,623	-	30,623	Note 3
	<u>Common shares</u>							
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	40,729	1.18	40,729	Note 5
	Translink Capital Partners IV L.P.	-	Same as above	670	21,910	0.59	21,910	Note 5
	Liquid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	114,791	6.70	114,791	Note 7
	UMBO CV Inc. (preference shares)	-	Same as above	1,626	7,024	2.34	7,024	Note 5
	Omni Media International Incorporation	-	Same as above	1,714	17,588	2.60	17,588	Note 5
RENIAC, INC. (preference shares)	-	Same as above	302	13,329	1.97	13,329	Note 5	
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	3,980	50,341	-	50,341	Note 3
	FSITC Money Market	-	Same as above	280	50,305	-	50,305	Note 3
	Taishin Ta-Chong Money Market Fund	-	Same as above	3,513	50,307	-	50,307	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	815	10,293	-	10,293	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Same as above	5,816	60,650	-	60,650	Note 3
	<u>Common shares</u>							
My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-	
Phisontech Electronics Taiwan Corp.	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Money Market	-	Financial assets at FVTPL - current	56	10,023	-	10,023	Note 3
Super Storage Technology Corporation	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	833	8,325	13.88	8,325	Note 6

Note 1: The marketable securities listed refer to the types of financial instruments within the scope of IFRS 9 "Financial Instruments".

Note 2: The carrying amount is either the fair value or the original cost net of allowance loss.

Note 3: The calculation of the market value was based on the net asset value as of December 31, 2020.

Note 4: The calculation of the market value was based on the closing price as of December 31, 2020.

(Continued)

Note 5: Refer to Note 29 (b)-3 for market value information.

Note 6: The calculation of the market value was based on the most recent acquisition price.

Note 7: The calculation of the market value was based on the expert appraisal report on December 31, 2020.

Note 8: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance (Note 1)		Acquisition		Disposal				Ending Balance (Note 1)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
The Corporation	Phisontech Electronics Taiwan Corp.	Investments accounted for using the equity method	Subsidiary	Subsidiary	1,000	\$ 40,518	54,000	\$ 540,000	-	\$ -	\$ -	\$ -	55,000	\$ 609,344
	Kingston Solutions Inc.	Same as above	Kingston Technology Corporation	Non-related parties	10,605	965,294	-	-	10,605	1,781,640	1,072,154	967,348	-	-
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Same as above	Corporations and individuals	Non-related parties	-	-	34,843	452,954	-	-	-	-	34,843	486,048
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Same as above	Corporations	Non-related parties	Note 2	1,104,340	-	-	Note 2	2,670,895 (Note 3)	1,283,512 (Note 3)	4,092,853 (Note 3)	Note 2	1,393,661
	Hosin Global Electronics Co., Ltd. (SZ)	Same as above	Corporations	Associate	-	-	54,500 (Note 4)	1,410,024 (Note 4)	-	-	-	-	54,500	1,029,245

Note 1: The amounts of the beginning and ending balances include the valuation gains or losses on investments accounted for using the equity method.

Note 2: The company is not the one of company limited by shares, therefore no number of shares were presented in the report.

Note 3: Refer to Note 27 for related transactions.

Note 4: Refer to Note 13 for related transactions.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	Kingston Solutions Inc.	Investee company accounted for using the equity method	Purchase	\$ 170,286	1	Net 30 days after monthly closing	None	None	\$ -	-	1
	Kioxia America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	710,064	2	Net 30 days after receipt date	None	None	-	-	-
	Kioxia Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	9,876,557	35	Net 30 days after monthly closing	None	None	(1,063,257)	(30)	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associate	Purchase	131,841	-	Net 7 days after receipt date	None	None	(10,037)	-	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,774,367	5	Net 30 days after monthly closing	None	None	(208,547)	(6)	-
	Super Storage Technology Corporation	The subsidiary is its director	Processing cost	169,610	-	Net 30 days after monthly closing	None	None	-	-	2
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	186,267	-	Net 30 days after monthly closing	None	None	45,763	1	2
	Kioxia Corporation	The Corporation's legal entity board of directors	Sale	(641,484)	(1)	Net 60 days after monthly closing	None	None	42,000	1	-
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The sub-subsidiary of the Corporation's legal entity board of directors	Sale	(201,698)	-	Net 90 days after receipt date	None	None	21,961	-	-
	Kingston Solutions Inc.	Investee company accounted for using the equity method	Sale	(464,146)	(1)	Net 60 days after monthly closing	None	None	-	-	1
	Apacer Technology Inc.	The Corporation is its director	Sale	(1,084,371)	(2)	Net 45 days after monthly closing	None	None	247,337	4	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(673,765)	(1)	Net 30 days after monthly closing	None	None	-	-	3
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	Sale	(317,025)	(1)	Net 60 days after receipt date	None	None	101,882	2	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsidiary's associate	Sale	(240,433)	-	Net 45 days after monthly closing	None	None	116,308	2	-
	ProGrade Digital Incorporated	Investee company accounted for using the equity method	Sale	(149,310)	-	Net 30 days after receipt date	None	None	23,935	-	-

Note 1: Starting from September 2020, Kingston Solutions Inc. was no longer a related party of the Group.

Note 2: Starting from July 2020, Super Storage Technology Corporation became a subsidiary of the Group.

Note 3: Starting from November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and transferred into investments accounted for using equity method (associate) of the Group.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
The Corporation	Apacer Technology Inc.	The Corporation is its director	\$ 247,337	5.04	\$ -	-	\$ 247,336	\$ -
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	101,882	4.35	-	-	99,725	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsidiary's associate	116,308	3.91	-	-	111,273	-

Note: As of March 3, 2021.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number	Company Name	Counterparty	Flow of Transaction (Note)	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	The Corporation	Hefei Core Storage Electronic Limited	1	Sales revenue	\$ 673,765	Based on regular terms	1
		Ostek Corporation	1	Research expenses	136,759	Based on regular terms	-
			1	Manufacturing expenses	33,027	Based on regular terms	-
		Super Storage Technology Corporation	1	Accounts payable	2,156	Based on regular terms	-
			1	Other payables	1,176	Based on regular terms	-
			1	Manufacturing expenses	189,938	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Accounts payable	45,763	Based on regular terms	-
			1	Sales expenses	18,079	Based on regular terms	-
		Phison Technology Inc.	1	Other payables	4,867	Based on regular terms	-
1	Sales expenses		177,263	Based on regular terms	-		
			1	Other payables	20,704	Based on regular terms	-

Note: Parent company to subsidiary: 1.

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
The Corporation	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ -	\$ 106,050	-	-	\$ -	\$ 324,705	\$ 106,860	-
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	354,492	2,711	2,711	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	582,534	(1,803)	(1,803)	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	22,977	(2,910)	(1,426)	Investee company accounted for using the equity method
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	41,363	55,000,000	100.00	609,344	28,731	28,826	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	32,512	757	757	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	726,307	1,158,472	22,100,000	100.00	4,387,550	3,928,788	3,928,788	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	-	91,422	-	-	-	-	2,560	-
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	269,809	620,955	269,531	Investee company accounted for using the equity method
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	94,274	(276)	(276)	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	315,133	261,532	261,532	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	393,214	21,900,000	100.00	1,142,311	65,200	65,200	Subsidiary
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	-	2,785,000	32.01	88,400	33,560	11,513	Investee company accounted for using the equity method
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	81,232	-	5,880	49.00	98,233	34,708	17,007	Investee company accounted for using the equity method

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	\$ 9,000	\$ 9,000	900,000	100.00	\$ 28,182	\$ (772)	\$ -	Sub-subsiidiary
	PMS Technology Corporation	Taiwan	Development and design of flash memory controllers and related products	-	2,000	-	-	-	396	-	-
Emtops Electronics Corporation	Phison Technology Inc.	USA	Sales and service office	90,419	31,415	3,000,000	100.00	92,182	4,892	-	Sub-subsiidiary
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	-	34,842,595	100.00	486,048	33,094	-	Sub-subsiidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	1,068,818	19,150,000	100.00	2,920,824	3,945,768	-	Sub-subsiidiary
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	88,725	58	-	Sub-subsiidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Manufacture and sale of flash memory related products	191,986	391,986	20,950,000	100.00	271,426	261,210	-	Sub-subsiidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	391,989	21,850,000	100.00	1,146,076	65,379	-	Sub-subsiidiary

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2020	Percentage of Ownership (%)	Share of Profit (Loss) (Note 2)	Carrying Amount as of December 31, 2020	Accumulated Inward Remittance of Earnings as of December 31, 2020	Note
					Outflow	Inflow						
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ -	b (2)	\$ 53,096	\$ -	\$ -	\$ 53,096	-	\$ (1,992)	\$ -	\$ -	3
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic product and technical support service and rendering of related services	1,059,715	b (2)	1,063,215	-	432,225	630,990	24.41	168,053	1,393,661	-	3
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	b (1)	182,825	-	-	182,825	100.00	(4,421)	170,044	-	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and rendering of related services and investment	-	b (2)	-	-	-	-	-	114,148	-	-	3
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	b (1), b (2)	-	-	-	-	24.23	(11,810)	161,207	-	-
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,347,675	b (1), b (2)	183,640	259,140	-	442,780	34.43	92,744	1,973,587	-	-

Accumulated Investments in Mainland China as of December 31, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 1,309,691 (US\$ 41,332)	\$ 1,336,236 (US\$ 42,390)	\$ 21,093,280

(Continued)

Note 1: Method of investment:

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

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

Note 3: The Group lost control of Hefei Core Storage Electronic Limited in November, 2020. Therefore, Hefei Core Storage Electronic Limited and its subsidiaries were no longer included in the consolidated financial statement and transferred into investments accounted for using equity method. Refer to Notes 13 and 27 for related information.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	\$ 673,765	(1)	Net 30 days after monthly closing	None	None	\$ -	-	-
	Hefei Core Storage Electronic Limited	The reinvestment of the second-tier subsidiary's associate	Sale	88,916	-	Net 30 days after monthly closing	None	None	35,703	-	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the second-tier subsidiary's associate	Sale	317,025	(1)	Net 60 days after receipt date	None	None	101,882	2	-
	Hosin Global Electronics Co., Ltd. (SZ)	The reinvestment of the second-tier subsidiary's associate	Sale	6,446	-	Net 45 days after monthly closing	None	None	-	-	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Sale	240,433	-	Net 45 days after monthly closing	None	None	116,308	2	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Purchase	131,841	-	Net 7 days after receipt date	None	None	(10,037)	-	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Purchase	3,439	-	Net 60 days after monthly closing	None	None	-	-	-
Hefei Core Storage Electronic Limited	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Sale	1,328	-	Net 30 days after receipt date	None	None	-	-	-

TABLE 9**PHISON ELECTRONICS CORP.****INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Trust Investment Account of KIOXIA Corporation by First Bank	19,821,112	10.05

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Corporation as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the financial statements of Phison Electronics Corp. (the "Corporation") which comprise the balance sheets as of December 31, 2020 and 2019, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Corporation's financial statements for the year ended December 31, 2020 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presume that there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Corporation's customers are numerous and diverse, and the net sales of the Corporation for the year ended December 31, 2020 amounted to NT\$48,176,710 thousand. Therefore, there is a high possibility of abnormal sales from transactions with customers, and validity of such transactions may have a significant effect on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

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

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.

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

Emphasis of Matter

As stated in Note 32 to the accompanying financial statements, the Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then, the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center (“Investors Protection Center”) had filed two civil actions, respectively: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim compensation damage against the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation had already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. As such, our audit opinion is not modified in respect of this matter.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all

relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Hsin-Wei Tai and Li-Wen Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 11, 2021

Notice to Readers

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

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

PHISON ELECTRONICS CORP.

BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 12,003,683	25	\$ 8,276,554	22
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	5,201,526	11	3,158,984	8
Financial assets at amortized cost (Notes 9 and 28)	293,860	1	20,383	-
Accounts receivable				
Non-related parties (Note 10)	5,346,886	11	5,333,785	14
Related parties (Notes 10 and 27)	669,288	1	564,913	1
Other receivables (Note 10)	275,957	1	409,011	1
Inventories (Note 11)	10,136,867	22	11,443,733	30
Prepayments	42,921	-	281,215	1
Other current assets	32,773	-	2,467	-
Total current assets	34,003,761	72	29,491,045	77
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) (Note 7)	374,597	1	405,875	1
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 8)	199,247	-	213,736	1
Investments accounted for using the equity method (Note 12)	7,997,569	17	4,256,081	11
Property, plant and equipment (Note 13)	3,954,832	8	3,263,440	8
Right-of-use assets (Note 14)	33,221	-	32,840	-
Intangible assets (Note 15)	310,269	1	267,339	1
Deferred tax assets (Note 22)	375,927	1	345,395	1
Other non-current assets	33,702	-	4,202	-
Total non-current assets	13,279,364	28	8,788,908	23
TOTAL	\$ 47,283,125	100	\$ 38,279,953	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 1,452,480	3	\$ -	-
Contract liabilities	35,553	-	130,615	-
Accounts payable				
Non-related parties	2,163,954	5	2,252,521	6
Related parties (Note 27)	1,337,642	3	1,385,981	4
Other payables (Note 17)	5,963,775	13	4,050,837	11
Tax payable (Note 22)	83,727	-	597,762	2
Lease liabilities (Note 14)	15,054	-	12,520	-
Other current liabilities (Note 18)	627,577	1	549,427	1
Total current liabilities	11,679,762	25	8,979,663	24
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 22)	325,441	1	21,930	-
Lease liabilities (Note 14)	18,440	-	20,702	-
Net defined benefit liabilities (Note 19)	103,528	-	94,945	-
Guarantee deposits received	487	-	393	-
Total non-current liabilities	447,896	1	137,970	-
Total liabilities	12,127,658	26	9,117,633	24
EQUITY (Note 20)				
Common shares	1,970,740	4	1,970,740	5
Capital surplus	6,586,173	14	6,724,104	18
Retained earnings				
Legal reserve	4,306,531	9	3,850,715	10
Special reserve	176,125	-	380,927	1
Unappropriated earnings	22,281,239	47	16,411,959	43
Total retained earnings	26,763,895	56	20,643,601	54
Other equity	(165,341)	-	(176,125)	(1)
Total equity	35,155,467	74	29,162,320	76
TOTAL	\$ 47,283,125	100	\$ 38,279,953	100

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

PHISON ELECTRONICS CORP.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 27)				
Gross sales	\$ 48,683,247	101	\$ 44,812,822	101
Less: Sales returns and allowances	<u>506,537</u>	<u>1</u>	<u>663,559</u>	<u>2</u>
Net sales	48,176,710	100	44,149,263	99
Other operating revenue	<u>173,717</u>	<u>-</u>	<u>330,012</u>	<u>1</u>
Total operating revenue	48,350,427	100	44,479,275	100
OPERATING COSTS (Notes 11, 21 and 27)	36,191,425	75	33,337,982	75
(UNREALIZED) REALIZED GAIN ON TRANSACTIONS	<u>(4,069)</u>	<u>-</u>	<u>11,288</u>	<u>-</u>
GROSS PROFIT	<u>12,154,933</u>	<u>25</u>	<u>11,152,581</u>	<u>25</u>
OPERATING EXPENSES (Note 21)				
Marketing	879,042	2	636,791	1
General and administrative	719,547	1	618,075	1
Research and development	6,763,563	14	4,728,405	11
Expected credit gains (Note 10)	<u>(56,269)</u>	<u>-</u>	<u>(43,384)</u>	<u>-</u>
Total operating expenses	<u>8,305,883</u>	<u>17</u>	<u>5,939,887</u>	<u>13</u>
OPERATING INCOME	<u>3,849,050</u>	<u>8</u>	<u>5,212,694</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES (Note 21)				
Other income	119,952	-	156,663	-
Other gains and losses	614,931	1	26,933	-
Interest income	31,699	-	52,615	-
Share of profits (losses) of subsidiaries and associates (Note 12)	4,691,780	10	(106,453)	-
Financial costs	<u>(3,156)</u>	<u>-</u>	<u>(2,006)</u>	<u>-</u>
Total non-operating income and expenses	<u>5,455,206</u>	<u>11</u>	<u>127,752</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	9,304,256	19	5,340,446	12
INCOME TAX EXPENSE (Note 22)	<u>605,212</u>	<u>1</u>	<u>796,957</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>8,699,044</u>	<u>18</u>	<u>4,543,489</u>	<u>10</u>

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME FOR THE YEAR				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plan	\$ (7,434)	-	\$ (1,445)	-
Unrealized (loss) gain on investments in equity instruments at fair value through other comprehensive income	(15,345)	-	58,967	-
Share of other comprehensive (loss) gain of subsidiaries and associates accounted for using the equity method	(31,905)	-	206,249	1
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	1,487	-	289	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive gain (loss) of subsidiaries and associates accounted for using the equity method	106,038	-	(58,260)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>(30,630)</u>	<u>-</u>	<u>13,669</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>22,211</u>	<u>-</u>	<u>219,469</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 8,721,255</u>	<u>18</u>	<u>\$ 4,762,958</u>	<u>11</u>
EARNINGS PER SHARE (NT\$, Note 23)				
Basic	<u>\$ 44.14</u>		<u>\$ 23.05</u>	
Diluted	<u>\$ 43.01</u>		<u>\$ 22.78</u>	

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

(Concluded)

PHISON ELECTRONICS CORP.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars)**

	Common Shares	Capital Surplus	Retained Earnings			Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2019	\$ 1,970,740	\$ 6,674,650	\$ 3,418,903	\$ -	\$ 15,228,504	\$ (67,908)	\$ (313,019)	\$ 26,911,870
Appropriation of the 2018 earnings								
Legal reserve	-	-	431,812	-	(431,812)	-	-	-
Special reserve	-	-	-	380,927	(380,927)	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)
Changes in capital surplus from investments in associates accounted for using the equity method	-	47,085	-	-	-	-	-	47,085
Changes in percentage of ownership interests in subsidiaries	-	2,369	-	-	-	-	-	2,369
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	15,823	-	(15,823)	-
Net profit for the year ended December 31, 2019	-	-	-	-	4,543,489	-	-	4,543,489
Other comprehensive (loss) income for the year ended December 31, 2019, net of income tax	-	-	-	-	(1,156)	(44,591)	265,216	219,469
BALANCE AT DECEMBER 31, 2019	1,970,740	6,724,104	3,850,715	380,927	16,411,959	(112,499)	(63,626)	29,162,320
Appropriation of the 2019 earnings								
Legal reserve	-	-	455,816	-	(455,816)	-	-	-
Reversal of special reserve	-	-	-	(204,802)	204,802	-	-	-
Cash dividends - NT\$13 per share	-	-	-	-	(2,561,962)	-	-	(2,561,962)
Changes in capital surplus from investments in associates accounted for using the equity method	-	(335,315)	-	-	(28,215)	-	-	(363,530)
Changes in percentage of ownership interests in subsidiaries	-	(426)	-	-	-	-	-	(426)
Recognition of employee share options	-	197,810	-	-	-	-	-	197,810
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	17,374	-	(17,374)	-
Net profit for the year ended December 31, 2020	-	-	-	-	8,699,044	-	-	8,699,044
Other comprehensive (loss) income for the year ended December 31, 2020, net of income tax	-	-	-	-	(5,947)	75,408	(47,250)	22,211
BALANCE AT DECEMBER 31, 2020	<u>\$ 1,970,740</u>	<u>\$ 6,586,173</u>	<u>\$ 4,306,531</u>	<u>\$ 176,125</u>	<u>\$ 22,281,239</u>	<u>\$ (37,091)</u>	<u>\$ (128,250)</u>	<u>\$ 35,155,467</u>

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 9,304,256	\$ 5,340,446
Adjustments for:		
Depreciation	340,969	276,217
Amortization	200,124	157,195
Expected credit gains	(56,269)	(43,384)
Net loss (gain) on financial assets at fair value through profit or loss	27,217	(149,990)
Financial costs	3,156	2,006
Interest income	(31,699)	(52,615)
Dividend income	(82,471)	(77,813)
Compensation costs of employee share options	195,970	-
Share of (profits) losses of subsidiaries and associates	(4,691,780)	106,453
Loss (gain) on disposal of property, plant and equipment	2,218	(14,429)
Gain on disposal of investments for using the equity method	(961,153)	-
Write-down (reversal of write-down) of inventories	196,619	(63,700)
Unrealized (realized) gain on transactions	4,069	(11,288)
Unrealized loss on foreign currency exchange	102,380	83,862
Gains on modification of lease	(468)	-
Recognition of refund liabilities	261,975	363,490
Net changes related to operating assets and liabilities		
Accounts receivable	(89,098)	(700,786)
Other receivables	133,214	(157,014)
Inventories	1,110,247	(3,888,961)
Prepayments	220,899	(254,327)
Other current assets	(30,306)	6,054
Contract liabilities	(95,062)	96,349
Accounts payable	(133,668)	(1,126,222)
Other payables	1,936,510	772,583
Other current liabilities	(183,825)	(111,779)
Net defined benefit liabilities	<u>1,149</u>	<u>673</u>
Cash generated from operations	7,685,173	553,020
Interest paid	(2,657)	(2,006)
Income tax paid	<u>(875,411)</u>	<u>(724,686)</u>
Net cash generated from (used in) operating activities	<u>6,807,105</u>	<u>(173,672)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets at fair value through other comprehensive income	-	8,674
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	246	-
Purchase of financial assets at amortized cost	(273,477)	-
Proceeds from sale of financial assets at amortized cost	-	10,193

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Purchase of financial assets at fair value through profit or loss	\$ (2,150,000)	\$ (138,733)
Proceeds from sale of financial assets at fair value through profit or loss	92,379	77,763
Proceeds from capital reduction of financial assets at fair value through profit or loss	19,140	8,730
Purchase of investments accounted for using the equity method	(967,452)	(1,012,895)
Net cash inflow on disposal of associates	1,776,295	-
Proceeds of the capital reduction of investments accounted for using the equity method	495,011	-
Payments for property, plant and equipment	(1,000,105)	(531,390)
Proceeds from disposal of property, plant and equipment	-	14,429
Increase in refundable deposits	(6,039)	(1,658)
Payments for intangible assets	(243,054)	(275,153)
Increase in prepayments for equipment	(23,461)	-
Interest received	31,525	53,242
Dividends received from associates	314,437	-
Other dividends received	<u>82,471</u>	<u>77,813</u>
Net cash used in investing activities	<u>(1,852,084)</u>	<u>(1,708,985)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	1,459,493	-
Increase (decrease) in guarantee deposits	94	(10)
Repayment of the principal portion of lease liabilities	(16,720)	(10,794)
Dividends paid	<u>(2,561,962)</u>	<u>(2,561,962)</u>
Net cash used in financing activities	<u>(1,119,095)</u>	<u>(2,572,766)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(108,797)</u>	<u>(46,335)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,727,129	(4,501,758)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>8,276,554</u>	<u>12,778,312</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 12,003,683</u>	<u>\$ 8,276,554</u>

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

(With Deloitte & Touche auditors' report dated March 11, 2021)

(Concluded)

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL INFORMATION

Phison Electronics Corp. (the “Corporation”) was incorporated on November 8, 2000 under the Company Act of the Republic of China (“ROC”). The Corporation mainly designs and sells flash memory controllers and peripheral system applications.

The Corporation’s shares have been trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

The financial statements are presented in the Corporation’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation’s board of directors on March 11, 2021.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation’s accounting policies.

- b. The IFRSs endorsed by the FSC for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendment to IFRS 16 “Covid-19 - Related Rent Concessions”	June 1, 2020

As of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of aforementioned standards and interpretations will have on the Corporation’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

As of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of aforementioned standards and interpretations will have on the Corporation’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

The financial statements have been prepared on the historical cost basis, except for financial instruments measured at fair value and net defined benefit liabilities measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- c. Level 3 inputs are unobservable inputs for an asset or liability.

When preparing its parent company only financial statements, the Corporation used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Corporation in its consolidated financial statements, adjustments arising from the differences in the accounting treatment between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, share of profit or loss of subsidiaries and associates and share of other comprehensive income of subsidiaries and associates, as appropriate, in the parent company only financial statements.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period; and
- c. Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

All other assets and liabilities are classified as non-current.

Foreign Currencies

In preparing the Corporation's financial statements, transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting financial statements, the functional currencies of the Corporation and its foreign operations (including subsidiaries and associates in other countries that use currencies different from the currency of the Corporation) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

Inventories

Inventories consist of raw materials, work-in-process, semi-finished goods and finished goods, which are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at their weighted-average costs on the balance sheet date.

Investments Accounted for Using the Equity Method

The Corporation uses the equity method to account for its investments in subsidiaries and associates.

Investments in subsidiaries

A subsidiary is an entity that is controlled by the Corporation.

Under the equity method, an investment in a subsidiary is initially recognized at cost and the carrying amount is increased or decreased to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. The Corporation also recognizes the changes in the Corporation's share of equity of the subsidiary.

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation's loss of control over the subsidiaries are accounted for as equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

The Corporation assesses its investment for any impairment by comparing the carrying amount with the

estimated recoverable amount as assessed based on the financial statements of the subsidiary as a whole. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Corporation recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization) had no impairment loss been recognized in prior years.

When the Corporation loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in the period. Besides this, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Corporation directly disposed of the related assets or liabilities.

Profits and losses resulting from any downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Corporation.

Investments in associates

An associate is an entity over which the Corporation has significant influence and which is not a subsidiary.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the Corporation's share of equity of associates.

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

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

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

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

When the Corporation transacts with its associate, profits or losses resulting from these transactions with the associates are recognized in the Corporation's financial statements only to the extent of interests in the associates that are not related to the Corporation.

Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are carried at cost less any recognized impairment loss. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended uses.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Impairment of Property, Plant and Equipment, Right-of-use Asset and Intangible Assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

1) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such financial assets are recognized in other income and interest income, respectively; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 26.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and trade receivables, are measured at amortized cost and equal the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit adjusted effective interest rate to the amortized cost of such a financial asset; and
- ii. Financial assets that have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such a financial asset.

A financial asset is credit impaired when one or more of the following events have occurred:

- i. Significant financial difficulty of the issuer or the borrower;
- ii. Breach of contract, such as a default;
- iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv. The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Corporation may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets

The Corporation recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) at the end of each reporting period.

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

Expected credit losses reflect the weighted average of credit losses with the respective risks of default

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

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

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

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

3) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Financial liabilities

1) Recognition and measurement

On initial recognition, the transaction costs of financial assets that are neither held for trading nor designated as at FVTPL (including short-term borrowing, trade payables, other payables and guarantee deposits received) which are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities. Subsequent valuation is measured at amortized cost determined by the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Revenue Recognition

The Corporation identifies contracts with the customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of flash memory controllers, peripheral systems and other applications. Sales of the aforementioned goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

The Corporation does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

Leases

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease.

a. The Corporation as lessor

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

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

b. The Corporation as lessee

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

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

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

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

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

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

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined benefit retirement plans are determined using the projected unit credit method. Service costs and net interest on net defined benefit liabilities (assets) are recognized as employee benefits expenses in the period that they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Corporation's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Termination benefits

A liability for termination benefits is recognized at the earlier of when the Corporation can no longer withdraw the offer of the termination benefits and when the Corporation recognizes any related restructuring costs.

Share-based Payment Arrangements - Employee Share Options

The fair value at the grant date of employee share options is expensed on a straight-line basis over the vesting period, based on the Corporation's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Corporation revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

The grant by the Corporation of its equity instruments to the employees of a subsidiary under options is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by referring to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus - employee share options.

Providing that the Corporation grants new equity instruments as a replacement for cancelled equity instruments, the Corporation shall recognize new equity instruments in the same way as a modification of original equity instruments. The incremental fair value is the difference between the fair value of new equity instruments and the net fair value of cancelled equity instruments at the date when new equity instruments are granted.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the Income Tax law in the ROC.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and that they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which a liability is settled or an asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of the Corporation’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised if the revisions affect only that year or in the year of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

Write-down of inventories

The net realizable value of inventory is its estimated selling price in the ordinary course of business less its estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 95	\$ 60
Checking accounts and demand deposits	7,745,267	5,910,829
Cash equivalents		
Time deposits with original maturities within 3 months	<u>4,258,321</u>	<u>2,365,665</u>
	<u>\$ 12,003,683</u>	<u>\$ 8,276,554</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Non-derivative financial assets - current</u>		
Financial assets mandatorily classified as FVTPL		
Beneficiary certificates - open-end funds	\$ 4,696,149	\$ 2,534,676
Domestic listed shares	505,377	529,538
Convertible bonds	<u>-</u>	<u>94,770</u>
	<u>\$ 5,201,526</u>	<u>\$ 3,158,984</u>

(Continued)

	<u>December 31</u>	
	2020	2019
<u>Non-derivative financial assets - non-current</u>		
Financial assets mandatorily classified as FVTPL		
Private equity funds	\$ 42,033	\$ 45,408
Domestic unlisted shares	314,214	341,618
Overseas unlisted shares	<u>18,350</u>	<u>18,849</u>
	<u>\$ 374,597</u>	<u>\$ 405,875</u>
		(Concluded)

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT

Investments in Equity Instruments at FVTOCI

	<u>December 31</u>	
	2020	2019
Domestic unlisted shares	\$ 113,156	\$ 119,170
Overseas unlisted shares	<u>86,091</u>	<u>94,566</u>
	<u>\$ 199,247</u>	<u>\$ 213,736</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Corporation's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

	<u>December 31</u>	
	2020	2019
Segregated foreign exchange deposit account for Offshore Funds (Note)	\$ 253,451	\$ -
Certificates of deposit	<u>40,409</u>	<u>20,383</u>
	<u>\$ 293,860</u>	<u>\$ 20,383</u>

The Corporation assessed that the expected credit risk of above financial assets was not material because the credit risk has not increased significantly since initial recognition.

Refer to Note 28 for information relating to investments in financial assets at amortized cost pledged as security.

Note: The Corporation was approved by the Ministry of Finance in August 2020 to repatriate US\$9,673 thousand in accordance with "The Management, Utilization, and Taxation of Repatriated Offshore Funds Act" (the Act). The repatriated amount, net of tax, was deposited into segregated foreign exchange deposit account (segregated account). The deposit in segregated account is subject to restrictions based on the Act.

10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount - non-related parties	\$ 5,387,995	\$ 5,431,163
Gross carrying amount - related parties	<u>669,288</u>	<u>564,913</u>
	6,057,283	5,996,076
Less: Loss allowance	<u>(41,109)</u>	<u>(97,378)</u>
	<u>\$ 6,016,174</u>	<u>\$ 5,898,698</u>
<u>Other receivables</u>		
Tax refunds receivable	\$ 257,435	\$ 292,145
Factored accounts receivable	15,790	30,342
Convertible bonds redemption receivable	-	83,286
Others	<u>2,732</u>	<u>3,238</u>
	<u>\$ 275,957</u>	<u>\$ 409,011</u>

Trade Receivables

The average credit period of sales of goods was 30 to 90 days. The Corporation adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Corporation uses other publicly available financial information or its own trading records to rate its major customers. The Corporation's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Corporation has delegated staff responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that an adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Corporation's credit risk is significantly reduced.

The Corporation measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using an allowance matrix by reference to past default experience with the respective debtors and an analysis of each debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Corporation's historical credit losses experience does not show significantly different loss patterns for different customer segments, the loss allowance, which is based on the past due status of receivables, is not further distinguished according to different segments of the Corporation's customer base.

The Corporation writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or when the trade receivables are over two years past due, whichever occurs earlier. For trade receivables that have been written off, the Corporation continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Corporation's allowance matrix.

December 31, 2020

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Gross carrying amount	\$ 5,069,514	\$ 311,326	\$ 7,128	\$ 27	\$ -	\$ -	\$ 5,387,995
Loss allowance (lifetime expected credit losses)	<u>(18,516)</u>	<u>(17,414)</u>	<u>(5,156)</u>	<u>(23)</u>	<u>-</u>	<u>-</u>	<u>(41,109)</u>
Amortized cost	<u>\$ 5,050,998</u>	<u>\$ 293,912</u>	<u>\$ 1,972</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,346,886</u>

December 31, 2019

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Gross carrying amount	\$ 4,965,897	\$ 426,446	\$ 2,282	\$ 12,802	\$ 667	\$ 23,069	\$ 5,431,163
Loss allowance (lifetime expected credit losses)	<u>(23,357)</u>	<u>(41,121)</u>	<u>(1,238)</u>	<u>(8,059)</u>	<u>(534)</u>	<u>(23,069)</u>	<u>(97,378)</u>
Amortized cost	<u>\$ 4,942,540</u>	<u>\$ 385,325</u>	<u>\$ 1,044</u>	<u>\$ 4,743</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>\$ 5,333,785</u>

The movements of the loss allowance of trade receivables were as follows:

	For the Year Ended December 31	
	2020	2019
Balance at January 1	\$ 97,378	\$ 140,762
Less: Reversal of loss allowance	<u>(56,269)</u>	<u>(43,384)</u>
Balance at December 31	<u>\$ 41,109</u>	<u>\$ 97,378</u>

Factored trade receivables that have not yet settled at end of period were as follows:

(In Thousands of Dollars)

Factor	Factor Amount	Reclassified to Other Receivables	Advances Received - Unused	Prepayments	Annual Interest Rates on Advances Received (Used) (%)
<u>December 31, 2020</u>					
HSBC Bank	US\$ 690	US\$ 554	\$ -	\$ -	-
<u>December 31, 2019</u>					
HSBC Bank	US\$ 1,220	US\$ 1,012	-	-	-

The factor was HSBC Bank (Taiwan) Limited. This sale was without recourse while the Corporation shall pay only the necessary related charges.

11. INVENTORIES

	December 31	
	2020	2019
Raw materials	\$ 5,298,146	\$ 6,906,706
Work-in-process	3,521,681	2,665,101
Semi-finished goods	1,267,154	1,751,589
Finished goods	<u>49,886</u>	<u>120,337</u>
	<u>\$ 10,136,867</u>	<u>\$ 11,443,733</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2020 and 2019 were \$36,191,425 thousand and \$33,337,982 thousand, respectively.

The costs of goods sold for the years ended December 31, 2020 and 2019 included inventory write-downs of \$196,619 thousand and reversals of inventory write-downs of \$63,700 thousand, respectively. The reversals of previous write-downs resulted from an increase in market selling prices.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2020	2019
Investments in subsidiaries	<u>\$ 7,518,150</u>	<u>\$ 3,266,384</u>
Investments in associates	<u>\$ 479,419</u>	<u>\$ 989,697</u>

a. Investments in subsidiaries

	December 31	
	2020	2019
<u>Unlisted shares</u>		
Global Flash Limited	\$ 4,387,550	\$ 1,157,998
Lian Xu Dong Investment Corporation	582,534	676,498
Emtops Electronics Corp.	354,492	355,076
Phisontech Electronics Taiwan Corp.	609,344	40,518
Phisontech Electronics (Malaysia) Sdn. Bhd.	-	59,482
Power Flash (Samoa) Limited	94,274	99,223
Everspeed Technology Limited	315,133	343,601
Phison Electronics Japan Corp.	32,512	31,722
Regis Investment (Samoa) Limited	<u>1,142,311</u>	<u>502,266</u>
	<u>\$ 7,518,150</u>	<u>\$ 3,266,384</u>

At the end of the reporting period, the proportions of ownership and voting rights in subsidiaries held by the Corporation were as follows:

Name of Subsidiaries	December 31	
	2020	2019
Global Flash Limited	100%	100%
Lian Xu Dong Investment Corporation	100%	100%
Emtops Electronics Corp.	100%	100%
Phisontech Electronics Taiwan Corp.	100%	100%
Phisontech Electronics (Malaysia) Sdn. Bhd.	-	100%
Power Flash (Samoa) Limited	100%	100%
Everspeed Technology Limited	100%	100%
Phison Electronics Japan Corp.	100%	100%
Regis Investment (Samoa) Limited	100%	100%

Global Flash Limited lost control of its subsidiary and recognized profit in November 2020, resulting in an increase in the carrying amount of the Corporation's investment at the end of the year and an increase in the Corporation's share of profit of associates for the year. Refer to the Corporation's consolidated financial statements Notes 13 and 27.

On February 11, 2020, the Corporation purchased Phisontech Electronics Taiwan Corp.'s 54,000 thousand ordinary shares for \$540,000 thousand through capital increase by cash. As of December 31, 2020, the Corporation's shareholding percentage in Phisontech Electronics Taiwan Corp. was 100%.

Phisontech Electronics (Malaysia) Sdn. Bhd. ended its operations in October 2020 and completed the liquidation procedures.

On September 1, 2020, the Corporation purchased 8,900 thousand shares of Regis Investment (Samoa) Limited for US\$8,900 thousand through capital increase. As of December 31, 2020, the Corporation's shareholding percentage in Regis Investment (Samoa) Limited was 100%.

Investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments held by the Corporation were calculated based on the financial statements which had been audited.

b. Investments in associates

	December 31	
	2020	2019
<u>Unlisted shares</u>		
Epostar Electronics (BVI) Corporation	\$ 269,809	\$ -
Nextorage Corporation	98,233	-
ProGrade Digital, Inc.	88,400	-
Microtops Design Corporation	22,977	24,403
Kingston Solutions Inc.	-	965,294
	<u>\$ 479,419</u>	<u>\$ 989,697</u>

The Corporation invested JPY294,000 thousand in Nextorage Corporation, and US\$2,785 thousand in ProGrade Digital, Inc. in 2020. As of December 31, 2020, the Corporation's percentages of ownership in Nextorage Corporation and ProGrade Digital, Inc. were 49% and 32.01%, respectively.

EpoStar Electronics (BVI) Corporation disposed of its subsidiary in February 2020, resulting in an increase in the carrying amount of the Corporation's investment at the end of the year and an increase in the Corporation's share of profit of associates for the year.

The Corporation disposed of its investment in Kingston Solutions Inc. to Kingston Technology Corporation, a non-related party, with \$1,781,640 thousand in September 2020, and recognized a gain on the disposal of investment of \$967,348 thousand.

Refer to Table 5 for the nature of activities, principal place of business and country of incorporation of the associates.

As of December 31, 2020 and 2019, no investments in associates were individually material to the Corporation.

Aggregate information of associates that are not individually material

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
The Corporation's share of:		
Net income (loss) for the year	\$ 403,485	\$ (329,903)
Other comprehensive income (loss)	<u>59,289</u>	<u>(37)</u>
Total comprehensive income (loss) for the year	<u>\$ 462,774</u>	<u>\$ (329,940)</u>

The calculation of the investments accounted for using the equity method and the Corporation's share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2020 and 2019 were based on financial statements that had been audited.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Mechanical Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>									
Balance at January 1, 2019	\$ 813,738	\$ 23,680	\$ 2,045,471	\$ 604,775	\$ 44,823	\$ -	\$ 40,135	\$ -	\$ 3,572,622
Additions	145,069	-	21,094	294,541	13,679	48,238	8,769	-	531,390
Disposals	-	(14,290)	-	(94,124)	(10,171)	-	(7,192)	-	(125,777)
Reclassification	-	-	25,340	10,015	-	-	580	-	35,935
Balance at December 31, 2019	<u>\$ 958,807</u>	<u>\$ 9,390</u>	<u>\$ 2,091,905</u>	<u>\$ 815,207</u>	<u>\$ 48,331</u>	<u>\$ 48,238</u>	<u>\$ 42,292</u>	<u>\$ -</u>	<u>\$ 4,014,170</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2019	\$ -	\$ 19,303	\$ 289,918	\$ 259,228	\$ 24,247	\$ -	\$ 18,796	\$ -	\$ 611,492
Disposals	-	(14,290)	-	(94,124)	(10,171)	-	(7,192)	-	(125,777)
Depreciation	-	1,334	62,558	174,823	11,916	4,099	10,285	-	265,015
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 6,347</u>	<u>\$ 352,476</u>	<u>\$ 339,927</u>	<u>\$ 25,992</u>	<u>\$ 4,099</u>	<u>\$ 21,889</u>	<u>\$ -</u>	<u>\$ 750,730</u>
Balance at December 31, 2019, net	<u>\$ 958,807</u>	<u>\$ 3,043</u>	<u>\$ 1,739,429</u>	<u>\$ 475,280</u>	<u>\$ 22,339</u>	<u>\$ 44,139</u>	<u>\$ 20,403</u>	<u>\$ -</u>	<u>\$ 3,263,440</u>
<u>Cost</u>									
Balance at January 1, 2020	\$ 958,807	\$ 9,390	\$ 2,091,905	\$ 815,207	\$ 48,331	\$ 48,238	\$ 42,292	\$ -	\$ 4,014,170
Additions	-	-	13,448	192,484	23,113	31,601	27,062	712,397	1,000,105
Disposals	-	-	-	(121,110)	(6,924)	-	(5,874)	-	(133,908)
Reclassification	-	-	-	17,395	-	-	-	-	17,395
Balance at December 31, 2020	<u>\$ 958,807</u>	<u>\$ 9,390</u>	<u>\$ 2,105,353</u>	<u>\$ 903,976</u>	<u>\$ 64,520</u>	<u>\$ 79,839</u>	<u>\$ 63,480</u>	<u>\$ 712,397</u>	<u>\$ 4,897,762</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2020	\$ -	\$ 6,347	\$ 352,476	\$ 339,927	\$ 25,992	\$ 4,099	\$ 21,889	\$ -	\$ 750,730
Disposals	-	-	-	(121,027)	(6,924)	-	(3,739)	-	(131,690)
Depreciation	-	1,178	64,187	222,168	12,118	13,565	10,674	-	323,890
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 7,525</u>	<u>\$ 416,663</u>	<u>\$ 441,068</u>	<u>\$ 31,186</u>	<u>\$ 17,664</u>	<u>\$ 28,824</u>	<u>\$ -</u>	<u>\$ 942,930</u>
Balance at December 31, 2020, net	<u>\$ 958,807</u>	<u>\$ 1,865</u>	<u>\$ 1,688,690</u>	<u>\$ 462,908</u>	<u>\$ 33,334</u>	<u>\$ 62,175</u>	<u>\$ 34,656</u>	<u>\$ 712,397</u>	<u>\$ 3,954,832</u>

To increase the scale of operations, the Corporation's board of directors resolved on January 17, 2020 to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Corporation. The total price of the project was approximately \$1,398,000 thousand. The Corporation financed the construction with its own funds. The construction period is from March 2020 to December 2021. In addition, the Corporation's board of directors resolved on November 12, 2020 to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Corporation. The total price of the project was approximately \$829,000 thousand. The Corporation financed the construction with its own funds. The construction period is from February 2021 to March 2022.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Land improvements	7 years
Buildings	20-50 years
Buildings - electrical engineering	20 years
Testing equipment	3 years
Office equipment	3 years
Mechanical equipment	3 years
Other equipment	3-5 years

14. LEASE ARRANGEMENTS

a. Right-of-use assets

	December 31	
	2020	2019
<u>Carrying amounts</u>		
Buildings	\$ 28,005	\$ 32,058
Transportation equipment	1,107	782
Other assets	<u>4,109</u>	<u>-</u>
	<u>\$ 33,221</u>	<u>\$ 32,840</u>
	For the Year Ended December 31	
	2020	2019
Depreciation charge for right-of-use assets		
Buildings	\$ 13,946	\$ 10,575
Transportation equipment	668	627
Other assets	<u>2,465</u>	<u>-</u>
	<u>\$ 17,079</u>	<u>\$ 11,202</u>

Except for the depreciation, the Corporation had no significant additions, subleases, and impairment losses recognized on right-of-use assets for the years ended December 31, 2020 and 2019.

b. Lease liabilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Carrying amounts</u>		
Current	\$ 15,054	\$ 12,520
Non-current	\$ 18,440	\$ 20,702

Range of discount rate for lease liabilities was as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Buildings	2.08%-2.85%	2.55%-2.85%
Transportation equipment	0.58%-2.60%	2.60%
Other assets	2.08%	-

c. Other lease information

The Corporation leases certain transportation equipment, office and dormitory which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Corporation had elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

15. INTANGIBLE ASSETS

	<u>December 31</u>		
	<u>2020</u>	<u>2019</u>	
Computer software	\$ 243,205	\$ 172,793	
Technology license fees	<u>67,064</u>	<u>94,546</u>	
	<u>\$ 310,269</u>	<u>\$ 267,339</u>	
	Computer Software	Technology License Fees	Total
Balance at January 1, 2019	\$ 110,317	\$ 39,064	\$ 149,381
Additions	182,719	92,434	275,153
Amortization	<u>(120,243)</u>	<u>(36,952)</u>	<u>(157,195)</u>
Balance at December 31, 2019	<u>\$ 172,793</u>	<u>\$ 94,546</u>	<u>\$ 267,339</u>
Balance at January 1, 2020	\$ 172,793	\$ 94,546	\$ 267,339
Additions	227,799	15,255	243,054
Amortization	<u>(157,387)</u>	<u>(42,737)</u>	<u>(200,124)</u>
Balance at December 31, 2020	<u>\$ 243,205</u>	<u>\$ 67,064</u>	<u>\$ 310,269</u>

The above items of intangible assets are amortized on a straight-line basis over the following estimated useful lives of the assets:

Computer software	1-5 years
Technology license fees	1-8 years

16. BORROWINGS

Short-term Borrowings

	<u>December 31</u>	
	2020	2019
<u>Unsecured borrowings</u>		
Bank loans	<u>\$ 1,452,480</u>	<u>\$ -</u>
Annual interest rates	0.57%-0.66%	-

17. OTHER PAYABLES

	<u>December 31</u>	
	2020	2019
Salaries and bonuses payable	\$ 4,980,747	\$ 3,143,229
Others	<u>983,028</u>	<u>907,608</u>
	<u>\$ 5,963,775</u>	<u>\$ 4,050,837</u>

18. OTHER CURRENT LIABILITIES

	<u>December 31</u>	
	2020	2019
Refund liabilities	\$ 490,929	\$ 419,506
Payables for purchases of equipment	27,817	35,711
Receipts under custody	40,181	31,395
Others	<u>68,650</u>	<u>62,815</u>
	<u>\$ 627,577</u>	<u>\$ 549,427</u>

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Corporation adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Corporation has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Corporation's defined benefit plan were as follows:

	December 31	
	2020	2019
Present value of defined benefit obligation	\$ 144,989	\$ 133,343
Fair value of plan assets	<u>(41,461)</u>	<u>(38,398)</u>
Net defined benefit liabilities	<u>\$ 103,528</u>	<u>\$ 94,945</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2019	<u>\$ 127,656</u>	<u>\$ (34,829)</u>	<u>\$ 92,827</u>
Service costs			
Current service costs	1,591	-	1,591
Net interest expense (income)	<u>1,532</u>	<u>(418)</u>	<u>1,114</u>
Recognized in profit or loss	<u>3,123</u>	<u>(418)</u>	<u>2,705</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,119)	(1,119)
Actuarial loss - changes in financial assumptions	8,565	-	8,565
Actuarial profit - experience adjustments	<u>(6,001)</u>	<u>-</u>	<u>(6,001)</u>
Recognized in other comprehensive income	<u>2,564</u>	<u>(1,119)</u>	<u>1,445</u>
Contributions from the employer	<u>-</u>	<u>(2,032)</u>	<u>(2,032)</u>
Balance at December 31, 2019	<u>\$ 133,343</u>	<u>\$ (38,398)</u>	<u>\$ 94,945</u>
Balance at January 1, 2020	<u>\$ 133,343</u>	<u>\$ (38,398)</u>	<u>\$ 94,945</u>
Service costs			
Current service costs	2,456	-	2,456
Net interest expense (income)	<u>1,066</u>	<u>(307)</u>	<u>759</u>
Recognized in profit or loss	<u>3,522</u>	<u>(307)</u>	<u>3,215</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (1,249)	\$ (1,249)
Actuarial profit - changes in financial assumptions	(13,943)	-	(13,943)
Actuarial loss - experience adjustments	<u>22,626</u>	<u>-</u>	<u>22,626</u>
Recognized in other comprehensive income	<u>8,683</u>	<u>(1,249)</u>	<u>7,434</u>
Benefits paid	(559)	559	-
Contributions from the employer	<u>-</u>	<u>(2,066)</u>	<u>(2,066)</u>
Balance at December 31, 2020	<u>\$ 144,989</u>	<u>\$ (41,461)</u>	<u>\$ 103,528</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plan is as follows:

	For the Year Ended December 31	
	2020	2019
Operating costs	\$ 600	\$ 433
Marketing expenses	348	302
Administrative expenses	919	695
Research and development expenses	<u>1,348</u>	<u>1,275</u>
	<u>\$ 3,215</u>	<u>\$ 2,705</u>

Recognized in other comprehensive income was an actuarial loss of \$5,947 thousand and \$1,156 thousand in 2020 and 2019, respectively. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2020 and 2019 was \$48,230 thousand and \$42,283 thousand, respectively.

Through the defined benefit plan under the Labor Standards Law, the Corporation is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2020	2019
Discount rate	0.40%	0.80%
Expected rate of salary increase	3.00%	4.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2020	2019
Discount rate		
0.25% increase	<u>\$ (6,246)</u>	<u>\$ (5,430)</u>
0.25% decrease	<u>\$ 6,577</u>	<u>\$ 5,670</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 6,024</u>	<u>\$ 5,174</u>
0.25% decrease	<u>\$ (5,769)</u>	<u>\$ (4,971)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2020	2019
The expected contributions to the plan for the next year	<u>\$ 2,059</u>	<u>\$ 2,038</u>
The average duration of the defined benefit obligation	18 years	17 years

20. EQUITY

a. Common shares

	December 31	
	2020	2019
Number of shares authorized (in thousands)	<u>300,000</u>	<u>280,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 2,800,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,074</u>
Shares issued	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>

On November 13, 2018, an employee share option plan was approved by the Corporation's board of directors which was declared effective on November 28, 2018, after the Financial Supervisory Commission (FSC) approved this plan as shown in the FSC's issued document No. 1070344165. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2018, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities. After the expired date on November 27, 2019, employee share option of the plan in 2018 must not be granted anymore because there was no issuance of employee share options within above period.

On November 11, 2019, an employee share option plan was approved by the Corporation's board of directors which was declared effective on November 22, 2019, after the FSC approved this plan as shown in the FSC's issued document No. 1080336954. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2019, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

On March 27, 2020, an employee share option plan was approved by the Corporation's board of directors, which was declared effective on April 10, 2020, after the FSC approved this plan as shown in the FSC's issued document No. 1090337137. In accordance with Article 56, Section 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2020, shares can be issued as a whole or in parts depending on the actual needs of the Corporation within 1 year starting from the date the issuer received the notification of approval from the authorities.

Fully paid issued common shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

Of the Corporation's authorized capital shares, 29,000 thousand shares were reserved for the issuance of employee share options.

Refer to Note 24 for information relating to actual outstanding employee share options.

b. Capital surplus

	<u>December 31</u>	
	2020	2019
May be used to offset a deficit, distributed as <u>cash dividends, or transferred to share capital (1)</u>		
Issuance of common shares	\$ 6,237,434	\$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
<u>May only be used to offset a deficit</u>		
Expired share options	227	227
Changes in percentage of ownership interests in subsidiaries (2)	1,944	2,370
Share of changes in capital surplus of associates	-	335,315
<u>May not be used for any purpose</u>		
Employee share options	<u>197,810</u>	<u>-</u>
	<u>\$ 6,586,173</u>	<u>\$ 6,724,104</u>

1) Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

- 2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions or from changes in capital surplus of subsidiaries accounted for using the equity method.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit until the accumulated legal capital reserve equals to the paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with the beginning balance of undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after the amendment, refer to Note 21(g) "employees' compensation and remuneration of directors and supervisors".

The Corporation's dividend distribution policy takes into consideration the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, the balance between retained earnings and dividends, and the Corporation's long-term financial plans. In accordance with the laws and regulations, the board of directors proposes a distribution plan on an annual basis, which should be resolved in the shareholder's meeting. Profit may be distributed as cash or share dividends; however, cash dividends should be at least 10% of the total dividends distributed.

The Corporation appropriates or reverses a special reserve in accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission. Distributions can be made out of any subsequent reversal of the debit to other equity items.

A legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2019 and 2018 were resolved in the shareholders' meeting on June 3, 2020 and June 12, 2019, respectively, and were as follows:

	Appropriation of Earnings	
	For Year 2019	For Year 2018
Legal reserve	\$ 455,816	\$ 431,812
(Reversal) special reserve	(204,802)	380,927
Cash dividends	2,561,962	2,561,962
Per share (NT\$) of cash dividends	13	13

The appropriation of earnings for 2020 had been proposed by the Corporation's board of directors on March 11, 2021. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 868,226	
Reversal of special reserve	(10,784)	
Cash dividends	4,532,702	\$23

The appropriation of earnings for 2020 are subject to the resolution of the shareholders in the shareholders' meeting to be held on May 28, 2021.

21. NET PROFIT FOR THE YEAR

a. Other gains and losses

	For the Year Ended December 31	
	2020	2019
Gain on disposal of investments accounted for using the equity method (Note 12)	\$ 961,153	\$ -
Net foreign exchange losses	(315,238)	(137,486)
Net (loss) gain on financial assets at FVTPL	(27,217)	149,990
Others	<u>(3,767)</u>	<u>14,429</u>
	<u>\$ 614,931</u>	<u>\$ 26,933</u>

b. Interest income

	For the Year Ended December 31	
	2020	2019
Bank deposits	\$ 25,447	\$ 47,065
Others	<u>6,252</u>	<u>5,550</u>
	<u>\$ 31,699</u>	<u>\$ 52,615</u>

c. Other income

	For the Year Ended December 31	
	2020	2019
Rental income	\$ 2,727	\$ 3,451
Dividend income	82,471	77,813
Others	<u>34,754</u>	<u>75,399</u>
	<u>\$ 119,952</u>	<u>\$ 156,663</u>

d. Finance costs

	For the Year Ended December 31	
	2020	2019
Interest on bank loans	\$ 2,010	\$ 1,085
Interest on lease liabilities	1,048	921
Others	<u>98</u>	<u>-</u>
	<u>\$ 3,156</u>	<u>\$ 2,006</u>

e. Depreciation and amortization

	For the Year Ended December 31	
	2020	2019
Property, plant and equipment	\$ 323,890	\$ 265,015
Right-of-use assets	17,079	11,202
Intangible assets	<u>200,124</u>	<u>157,195</u>
	<u>\$ 541,093</u>	<u>\$ 433,412</u>
 An analysis of depreciation by function		
Operating costs	\$ 78,720	\$ 54,413
Operating expenses	<u>262,249</u>	<u>221,804</u>
	<u>\$ 340,969</u>	<u>\$ 276,217</u>
 An analysis of amortization by function		
Operating costs	\$ 42	\$ -
Operating expenses	<u>200,082</u>	<u>157,195</u>
	<u>\$ 200,124</u>	<u>\$ 157,195</u>

f. Employee benefits expense

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	<u>\$ 6,126,608</u>	<u>\$ 4,186,750</u>
Post-employment benefits		
Defined contribution plan	111,966	94,799
Defined benefit plan (Note 19)	<u>3,215</u>	<u>2,705</u>
	<u>115,181</u>	<u>97,504</u>
Share-based payments		
Equity-settled	<u>195,970</u>	<u>-</u>
Other employee benefits		
Employee welfare	61,614	57,867
Food stipend	<u>57,347</u>	<u>47,547</u>
	<u>118,961</u>	<u>105,414</u>
	<u>\$ 6,556,720</u>	<u>\$ 4,389,668</u>
 Employee benefits		
Recognized in operating costs	\$ 302,143	\$ 202,519
Recognized in operating expenses	<u>6,254,577</u>	<u>4,187,149</u>
	<u>\$ 6,556,720</u>	<u>\$ 4,389,668</u>

g. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019, which have been approved by the Corporation's board of directors on March 11, 2021 and March 16, 2020, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Employees' compensation	9.66%	10.79%
Remuneration of directors and supervisors	0.43%	0.58%

Amount

	<u>For the Year Ended December 31</u>			
	<u>2020</u>		<u>2019</u>	
	<u>Cash Dividends</u>	<u>Share Dividends</u>	<u>Cash Dividends</u>	<u>Share Dividends</u>
Employees' compensation	\$ 1,000,000	\$ -	\$ 650,000	\$ -
Remuneration of directors and supervisors	45,000	-	35,000	-

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gains or losses on foreign currency exchange

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Foreign exchange gains	\$ 317,273	\$ 351,696
Foreign exchange losses	<u>(632,511)</u>	<u>(489,182)</u>
Net losses	<u>\$ (315,238)</u>	<u>\$ (137,486)</u>

22. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2020	2019
Current tax		
In respect of the current year	\$ 540,127	\$ 752,924
Income tax expense of unappropriated earnings	82,357	46,945
Adjustments for prior periods	<u>(261,108)</u>	<u>-</u>
	361,376	799,869
Deferred tax		
In respect of the current year	<u>243,836</u>	<u>(2,912)</u>
Income tax expense recognized in profit or loss	<u>\$ 605,212</u>	<u>\$ 796,957</u>

A reconciliation of accounting profit and income tax expense for 2020 and 2019 is as follows:

	For the Year Ended December 31	
	2020	2019
Profit before tax	<u>\$ 9,304,256</u>	<u>\$ 5,340,446</u>
Income tax expense calculated at the statutory rate	\$ 1,860,851	\$ 1,068,089
Tax-exempt income	(488,600)	(322,687)
Income tax on unappropriated earnings	82,357	46,945
Unrecognized deductible temporary differences	(615,888)	4,610
Effect of repatriation of overseas surplus	27,600	-
Adjustments for prior years' tax	<u>(261,108)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 605,212</u>	<u>\$ 796,957</u>

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Corporation only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

The appropriation of the earnings is uncertain and is subject to approval at the shareholders' meeting in 2021; thus, the potential consequences of income tax on the 2020 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2020	2019
<u>Deferred income tax</u>		
In respect of the current year		
Share of other comprehensive income of subsidiaries and associates	\$ (30,630)	\$ 13,669
Actuarial gain on defined benefit plan	<u>1,487</u>	<u>289</u>
Total income tax recognized in other comprehensive income	<u>\$ (29,143)</u>	<u>\$ 13,958</u>

c. Current tax liabilities

	December 31	
	2020	2019
Income tax payable	<u>\$ 83,727</u>	<u>\$ 597,762</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and liabilities were as follows:

For the year ended December 31, 2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Inventory write-downs	\$ 67,579	\$ 39,323	\$ -	\$ 106,902
Refund liabilities	83,901	14,285	-	98,186
Defined benefit obligation	18,989	230	1,487	20,706
Unrealized exchange losses	107,512	12,813	-	120,325
Impairment loss on financial assets	25,508	(250)	-	25,258
Exchange differences on translating foreign operations	30,630	-	(30,630)	-
Others	<u>11,276</u>	<u>(6,726)</u>	<u>-</u>	<u>4,550</u>
	<u>\$ 345,395</u>	<u>\$ 59,675</u>	<u>\$ (29,143)</u>	<u>\$ 375,927</u>
<u>Deferred tax liabilities</u>				
Share of profits of subsidiaries and associates	<u>\$ 21,930</u>	<u>\$ 303,511</u>	<u>\$ -</u>	<u>\$ 325,441</u>

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Inventory write-downs	\$ 80,319	\$ (12,740)	\$ -	\$ 67,579
Refund liabilities	37,184	46,717	-	83,901
Defined benefit obligation	18,565	135	289	18,989
Unrealized exchange losses	85,152	22,360	-	107,512
Impairment loss on financial assets	31,801	(6,293)	-	25,508
Exchange differences on translating foreign operations	16,961	-	13,669	30,630
Share of losses of subsidiaries and associates	13,110	(13,110)	-	-
Others	<u>23,503</u>	<u>(12,227)</u>	<u>-</u>	<u>11,276</u>
	<u>\$ 306,595</u>	<u>\$ 24,842</u>	<u>\$ 13,958</u>	<u>\$ 345,395</u>
<u>Deferred tax liabilities</u>				
Share of profits of subsidiaries and associates	<u>\$ -</u>	<u>\$ 21,930</u>	<u>\$ -</u>	<u>\$ 21,930</u>

e. Income tax assessments

Income tax returns through 2018 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2020	2019
Basic earnings per share	<u>\$ 44.14</u>	<u>\$ 23.05</u>
Diluted earnings per share	<u>\$ 43.01</u>	<u>\$ 22.78</u>

The earnings and weighted-average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2020	2019
Earnings used in the computation of basic earnings per share		
Profit for the period	<u>\$ 8,699,044</u>	<u>\$ 4,543,489</u>
Earnings used in the computation of diluted earnings per share		
Profit for the period	<u>\$ 8,699,044</u>	<u>\$ 4,543,489</u>

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2020	2019
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074
Effect of potentially dilutive common shares:		
Employees' compensation	3,511	2,367
Employees' stock options	<u>1,656</u>	<u>-</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>202,241</u>	<u>199,441</u>

If the Corporation offered to settle compensation or bonuses paid to employees in cash or shares, the Corporation assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

24. SHARE-BASED PAYMENT

Employee share option plan

In accordance with employee share option plan approved in 2019, qualified employees of the Corporation and its subsidiaries were granted 8,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Corporation. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Corporation's ordinary shares on the grant date. For any subsequent changes in the Corporation's capital surplus, the exercise price is adjusted accordingly. In addition, with the consent of the share option holders, the Corporation retracted and cancelled 6,000 thousand units of issued options and replaced them with employee share option plan approved in 2020.

Information on employee share options is as follows:

	For the Year Ended December 31			
	2020		2019	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at January 1	6,000	\$ 340	-	\$ -
Options cancelled	(6,000)	340	-	-
Options granted	2,000	262	6,000	340
Options forfeited	<u>(24)</u>	262	<u>-</u>	-
Balance at December 31	<u>1,976</u>	262	<u>6,000</u>	340
Options exercisable, end of year	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 59.63</u>		<u>\$ 70.44</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model are as follows:

	For the Year Ended December 31	
	2020	2019
Grant-date share price	\$262	\$340
Exercise price	\$262	\$340
Expected volatility	35.27%-35.45%	31.30%-31.79%
Expected dividend yield	-	-
Expected life	3 years	3 years
Risk-free interest rate	0.20%-0.22%	0.52%-0.53%

In accordance with employee share option plan approved in 2020, qualified employees of the Corporation and its subsidiaries were granted 6,000 thousand units of options. Each option entitles the holder with the right to subscribe for one ordinary share of the Corporation. The options granted are valid for 3 years and exercisable at certain percentages after the second year from the grant date. The options were granted at an exercise price equal to the closing price of the Corporation's ordinary shares on the grant date. For any subsequent changes in the Corporation's capital surplus, the exercise price is adjusted accordingly.

	For the Year Ended December 31, 2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Options granted	6,000	\$ 262
Options forfeited	<u>(165)</u>	262
Balance at December 31	<u>5,835</u>	262
Options exercisable, end of year	<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 59.63</u>	

Options were priced by using the Black-Scholes pricing model, and the inputs to the model are as follows:

	Input
Grant-date share price	\$262
Exercise price	\$262
Expected volatility	35.27%-35.45%
Expected dividend yield	-
Expected life	3 years
Risk-free interest rate	0.20%-0.22%

Information on outstanding options is as follows:

	December 31, 2020
Range of exercise price (\$)	\$ 262
Weighted-average remaining contractual life (in years)	2.75 years

Compensation cost recognized was \$195,970 thousand for the year ended December 31, 2020.

25. CAPITAL MANAGEMENT

The Corporation manages its capital to ensure that the Corporation will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Corporation consists of net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings and other equities).

The Corporation is not subject to any externally imposed capital requirements.

Key management personnel of the Corporation review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Corporation may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The Corporation's management considers the carrying amounts recognized in the financial statements for financial assets and financial liabilities not carried at fair value to approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 505,377	\$ -	\$ -	\$ 505,377
Domestic unlisted shares	-	-	314,214	314,214
Overseas unlisted shares	-	-	18,350	18,350
Domestic private equity funds	-	-	42,033	42,033
Beneficiary certificates - open-end funds	<u>4,696,149</u>	<u>-</u>	<u>-</u>	<u>4,696,149</u>
	<u>\$ 5,201,526</u>	<u>\$ -</u>	<u>\$ 374,597</u>	<u>\$ 5,576,123</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 113,156	\$ 113,156
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>86,091</u>	<u>86,091</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,247</u>	<u>\$ 199,247</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 529,538	\$ -	\$ -	\$ 529,538
Domestic unlisted shares	-	-	341,618	341,618
Overseas unlisted shares	-	-	18,849	18,849
Domestic private equity funds	-	-	45,408	45,408
Beneficiary certificates - open-end funds	2,534,676	-	-	2,534,676
Convertible bonds	-	-	94,770	94,770
	<u>\$ 3,064,214</u>	<u>\$ -</u>	<u>\$ 500,645</u>	<u>\$ 3,564,859</u>

Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 119,170	\$ 119,170
Overseas unlisted shares	-	-	94,566	94,566
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 213,736</u>	<u>\$ 213,736</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2020

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2020	\$ 45,408	\$ 94,770	\$ 360,467	\$ 213,736	\$ 714,381
Recognized in profit or loss	(3,375)	(2,391)	(8,763)	-	(14,529)
Recognized in other comprehensive income	-	-	-	(14,243)	(14,243)
Disposals and proceeds from capital reductions	-	(92,379)	(19,140)	(246)	(111,765)
Balance at December 31, 2020	<u>\$ 42,033</u>	<u>\$ -</u>	<u>\$ 332,564</u>	<u>\$ 199,247</u>	<u>\$ 573,844</u>

For the year ended December 31, 2019

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2019	\$ 47,366	\$ 85,288	\$ 336,131	\$ 163,443	\$ 632,228
Recognized in profit or loss	(1,958)	(5,134)	(13,288)	-	(20,380)
Recognized in other comprehensive income	-	-	-	58,967	58,967
Additions	-	92,379	46,354	-	138,733
Disposals and proceeds from capital reductions	-	(77,763)	(8,730)	(8,674)	(95,167)
Balance at December 31, 2019	<u>\$ 45,408</u>	<u>\$ 94,770</u>	<u>\$ 360,467</u>	<u>\$ 213,736</u>	<u>\$ 714,381</u>

3) Valuation techniques and inputs applied for the purpose of Level 3 fair value measurement

- a) The fair values of convertible bonds are determined using the Binary Tree Evaluation Model and option pricing models where the significant unobservable input is historical volatility. As of

December 31, 2019, the historical volatility used was 49.88%.

- b) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference between the unlisted equity securities and analogous subjects into consideration, the values of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease in the discount for the lack of marketability used in isolation would result in an increase in fair value.

	December 31	
	2020	2019
Discount for lack of marketability	15%	15%

- c) The fair values of unlisted equity securities - foreign were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests, the discount for lack of marketability and the weighted-average cost of capital (WACC) would result in increases in fair value. A decrease in sustainable revenue growth rates would result in a decrease in fair value.

	December 31	
	2020	2019
Discount for non-controlling interest	15%	15%
Discount for lack of marketability	15%	15%
Sustainable revenue growth rates	1.28%	2%
WACC	12.68-16.66%	12.78-14.39%

- d) The fair values of unlisted equity securities - domestic and foreign and private equity funds were determined using the asset-based approach. In order to reflect the overall value of the Corporation or business, the total market values of the individual assets and individual liabilities of the evaluation target are evaluated. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests and the discount for a lack of marketability would result in increases in fair value.

	December 31	
	2020	2019
Discount for non-controlling interests	10%	10%
Discount for lack of marketability	10%	10%

c. Categories of financial instruments

	<u>December 31</u>	
	2020	2019
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as FVTPL	\$ 5,576,123	\$ 3,564,859
Financial assets at amortized cost (Note 1)	18,589,674	14,604,646
Financial assets at FVTOCI		
Equity instruments	199,247	213,736
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 2)	10,918,338	7,689,732

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, accounts receivable and other receivables.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payable, other payables and guarantee deposits received.

d. Financial risk management objectives and policies

The Corporation's major financial instruments include equity investments, trade receivables, trade payables, borrowings and lease liabilities. The Corporation's financial management department provides services to the business unit and coordinates access to domestic and international financial markets. The risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Corporation's activities were exposed primarily to the financial risks of changes in foreign currency rates and interest rates.

a) Foreign currency risk

The Corporation had foreign currency sales and purchases, which exposed the Corporation to foreign currency risk. To avoid the decrease in foreign currency assets and adverse fluctuations of future cash flows resulting from changes in foreign currency exchange rates, the Corporation used foreign currency borrowings to hedge risks of foreign currency exchange rates. The gain or loss caused by changes in foreign currency exchange rates will be offset by profit or loss from the hedge. As a result, the market risk is immaterial.

For the carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period, refer to Note 31.

Sensitivity analysis

The Corporation was mainly exposed to the U.S. dollar.

The following table details the Corporation's sensitivity to a 6% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 6%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts its translation at the end of the reporting period for a 6% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with the New Taiwan dollar strengthening 6% against the relevant currency. For a 6% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	Impact of USD	
	For the Year Ended December 31	
	2020	2019
Profit or loss	\$ 182,479	\$ 293,806

b) Interest rate risk

The Corporation was exposed to interest rate risk because of holding bank deposits at floating interest rates.

The carrying amounts of the Corporation's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2020	2019
Fair value interest rate risk		
Financial assets	\$ 4,552,181	\$ 2,386,048
Financial liabilities	1,485,974	33,222
Cash flow interest rate risk		
Financial assets	7,745,267	5,910,829

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2020 and 2019 would increase by \$775 thousand and \$591 thousand, respectively.

c) Other price risk

The Corporation was exposed to equity price risks through its investments in international and domestic listed and unlisted stock, convertible bonds, private equity funds and beneficiary certificates.

Sensitivity analysis

The sensitivity analysis below was determined based on the Corporation's exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2020 and 2019 would have increased/decreased by \$55,761 thousand and \$35,649 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the years ended December 31, 2020 and 2019 would have increased/decreased by \$1,992 thousand and \$2,137 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Corporation. As at the end of the reporting period, the Corporation's maximum exposure to credit risk, which would cause a financial loss to the Corporation due to a failure of counterparties to discharge an obligation and financial guarantees provided by the Corporation, comes from the carrying amounts of the respective recognized financial assets as stated in the parent company only balance sheets.

The targets of the aforementioned evaluation are financial assets that could potentially be influenced by the Corporation's counterparties defaulting on their contractual obligations and contracts with positive fair values as of the balance sheet date. The customers of the Corporation are financial institutions or manufacturers with good credit ratings; and thus, there is no expected material credit risk.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2020 and 2019, the Corporation had available unutilized short-term bank loan facilities of \$7,065,920 thousand and \$7,838,400 thousand, respectively.

Liquidity and interest rate risk tables for non-derivative financial liabilities

The following tables detail the Corporation's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Corporation can be required to pay.

	December 31, 2020				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,220,611	\$ 2,090,497	\$ 4,237,990	\$ -	\$ -
Fixed interest rate liabilities	783,728	669,983	-	-	-
Lease liabilities	<u>1,345</u>	<u>2,690</u>	<u>11,714</u>	<u>18,906</u>	<u>-</u>
	<u>\$ 4,005,684</u>	<u>\$ 2,763,170</u>	<u>\$ 4,249,704</u>	<u>\$ 18,906</u>	<u>\$ -</u>
	December 31, 2019				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,110,774	\$ 1,975,254	\$ 3,201,073	\$ -	\$ -
Lease liabilities	<u>1,110</u>	<u>2,220</u>	<u>9,934</u>	<u>21,433</u>	<u>-</u>
	<u>\$ 3,111,884</u>	<u>\$ 1,977,474</u>	<u>\$ 3,211,007</u>	<u>\$ 21,433</u>	<u>\$ -</u>

- e. Information on transfers of financial assets

Refer to Note 10 for more information relating to the Corporation's factored trade receivables.

27. RELATED PARTY TRANSACTIONS

Besides information disclosed elsewhere in the other notes, details of transactions between the Corporation and other related parties are disclosed below.

- a. Related parties and their relationships

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related party
Kioxia America, Inc.	Other related party (Note 1)
Kioxia Corporation	Other related party (Note 2)
Kioxia Taiwan Corporation	Other related party (Note 3)
Orient Semiconductor Electronics Ltd.	Other related party
Apacer Technology Inc.	Other related party
Super Storage Technology Corporation	Other related parties/subsidiary (Note 4)
Solid State Storage Technology Corporation Hsinchu Science Park Branch	Other related party
Kingston Solutions Inc.	Associate (Note 5)
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Shenzhen EpoStar Electronics Limited Co.	Associate (Note 6)
Hosin Global Electronics Co., Ltd. (HK)	Associate
Hefei Datang Storage Technology Co., Ltd.	Associate
SiliTai Electronics Co., Limited	Associate
Hosin Global Electronics Co., Ltd. (SZ)	Associate
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Associate
Lian Xu Dong Investment Corporation	Subsidiary
Phisontech Electronics (Malaysia) Sdn. Bhd.	Subsidiary
Phison Electronics Japan Corp.	Subsidiary
Phison Technology Inc.	Subsidiary
Hefei Ruhan Electronic Technology Limited	Subsidiary
Emtops Electronics Corp.	Subsidiary
Ostek Corporation	Subsidiary
Phisontech Electronics Taiwan Corp.	Subsidiary
Hefei Core Storage Electronic Limited	Subsidiary/associate (Note 7)
Memoryexchange Corporation	Subsidiary

Note 1: Toshiba Memory America, Inc. was renamed as Kioxia America, Inc. on October 1, 2019.

Note 2: Toshiba Memory Corporation was renamed as Kioxia Corporation on October 1, 2019.

Note 3: Toshiba Memory Taiwan Corporation was renamed as Kioxia Taiwan Corporation on October 1, 2019.

Note 4: Starting from July 1, 2020, Super Storage Technology Corporation became a subsidiary.

Note 5: Starting from September 4, 2020, Kingston Solutions Inc. was no longer a related party.

Note 6: Starting from February 26, 2020, Shenzhen EpoStar Electronics Limited Co. was no longer a related party.

Note 7: Starting from November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and became an associate.

b. Operating revenue

Related Party Categories/Name	For the Year Ended December 31	
	2020	2019
Subsidiaries	\$ 674,248	\$ 424,638
Associates	1,380,219	1,321,776
Other related parties	<u>1,997,894</u>	<u>1,932,615</u>
	<u>\$ 4,052,361</u>	<u>\$ 3,679,029</u>

The terms of sales to related parties were similar to those for third parties.

c. Operating costs

1) Purchase of goods

Related Party Categories/Name	For the Year Ended December 31	
	2020	2019
Subsidiaries	\$ -	\$ 1,550
Associates	318,062	1,462,239
Other related parties		
Kioxia Taiwan Corporation	9,876,557	11,432,366
Others	<u>718,385</u>	<u>1,437,493</u>
	<u>\$ 10,913,004</u>	<u>\$ 14,333,648</u>

2) Processing costs

Related Party Categories/Name	For the Year Ended December 31	
	2020	2019
Subsidiaries	\$ 207,254	\$ 24,457
Associates	42	458
Other related parties	<u>1,943,977</u>	<u>2,385,170</u>
	<u>\$ 2,151,273</u>	<u>\$ 2,410,085</u>

The terms of operating costs from related parties were similar to those for third parties.

d. Receivables from related parties

Related Party Categories/Name	December 31	
	2020	2019
Subsidiaries	\$ 7	\$ 27,764
Associates	347,868	246,653
Other related parties	<u>321,413</u>	<u>290,496</u>
	<u>\$ 669,288</u>	<u>\$ 564,913</u>

The outstanding trade receivables from related parties are unsecured. No bad debt expense was recognized for the allowance for impaired trade receivables with respect to the amounts owed by related parties in 2020 and 2019.

e. Payables to related parties

Related Party Categories/Name	December 31	
	2020	2019
Subsidiaries	\$ 47,920	\$ 1,884
Associates	17,918	29,796
Other related parties		
Kioxia Taiwan Corporation	1,063,257	1,034,293
Others	<u>208,547</u>	<u>320,008</u>
	<u>\$ 1,337,642</u>	<u>\$ 1,385,981</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ 505,221	\$ 273,749
Post-employment benefits	3,116	2,561
Share-based payments	78,476	-
Other employee benefits	<u>5,726</u>	<u>3,436</u>
	<u>\$ 592,539</u>	<u>\$ 279,746</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for the tariff of imported raw materials:

	December 31	
	2020	2019
Refundable deposits for customs duties - certificates of deposit (financial assets at amortized cost - current)	<u>\$ 40,409</u>	<u>\$ 20,383</u>

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2020 and 2019 were as follows:

Significant Commitments

	December 31	
	2020	2019
Unused letters of credit	<u>\$ 1,160,000</u>	<u>\$ 1,660,000</u>

30. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On November 30, 2020, The board of directors resolved that Core Storage Electronic (Samoa) Limited, a subsidiary of the Corporation will participate in 54,095 thousand shares capital increase of Hosin Global Electronics Co., Ltd. with 24.41% residual ownership (the amount of contribution is CNY54,095 thousand) in Hefei Core Storage Electronic Limited. The transaction was settled in February 2021, the Group's shareholding percentage in Hosin Global Electronics Co., Ltd. (SZ). was 44.35%.

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Corporation's monetary financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

In Thousands of New Taiwan Dollars and Foreign Currencies

	December 31, 2020		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD	\$ 243,465	28.480	\$ 6,933,897
CNY	23,168	4.377	101,406
<u>Financial liabilities</u>			
Monetary			
USD	136,678	28.480	3,892,580
December 31, 2019			
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD	\$ 249,130	29.980	\$ 7,468,930
CNY	24,144	4.305	103,938

(Continued)

	December 31, 2019		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial liabilities</u>			
Monetary			
USD	\$ 85,796	29.980	\$ 2,572,158 (Concluded)

32. OTHER SIGNIFICANT EVENTS

- a. When considering the impact of the COVID-19 pandemic, the Corporation assessed that the pandemic had no significant influence on its finance and operations, and there were no doubts about its ability to continue as a going concern in relation to the recognition of an impairment loss and the risk of financing.
- b. The Corporation was under statutory investigation by the Taiwan Hsinchu District Prosecutorial Office (“District Prosecutorial Office”) on and from August 5, 2016 for alleged violation of the Securities and Exchange Act (the “Case”). The investigation was concluded on August 31, 2017, and the chairman of the Corporation and other defendants were either charged with deferred prosecution or dropped claim for further prosecution by the prosecutor. Then the District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office (“High Prosecutors Office”) for reconsideration. On November 18, 2017, High Prosecutors Office partially set aside and dismissed the original ruling, and ordered the District Prosecutorial Office to continue the investigation. On July 30, 2019, the District Prosecutorial Office concluded the investigation and indicted the chairman of the Corporation and others for their alleged violation of the Securities and Exchange Act and related provisions. A trial of the Case would be held in the Hsinchu District Court. The chairman of the Corporation would strive for a fair judgment in accordance with the law. The Corporation evaluated that its finance and operations had not yet been affected. Following the aforementioned indictment, the Corporation was served with complaints from the Hsinchu District Court on November 8, 2019 and December 13, 2019, that Securities and Futures Investors Protection Center (“Investors Protection Center”) had filed two civil actions, respectively as follows: (1) the first civil action was to remove Mr. K.S. Pua from director position of the Corporation’s board (“Removal Action”); (2) the second civil action was to claim compensation damage of \$697,389 thousand against the Corporation, its board of directors and other co-defendants on behalf of certain investors (“Class Action”). Those two civil actions were derivative litigations arising from the Case. The Corporation has already appointed civil defense attorneys and filed a motion to dismiss those two civil actions with the court. With regard to the aforementioned civil actions filed by Investors Protection Center, the possible consequences or developments resulting from litigations could not be assessed by the Corporation, but it was considered to have no significant influence to its finance and operations at the present stage.

33. ADDITIONAL DISCLOSURES

- a. Information about significant transactions:
 - 1) Financing provided to others. (None)
 - 2) Endorsements/guarantees provided. (None)
 - 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)

- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 2)
 - 5) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
 - 9) Trading in derivative instruments. (None)
- b. Information of investees. (Table 5)
- c. Information on investments in mainland China:
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 6)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 7)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 7)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes. (None)
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)
- d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder. (Table 8)

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2020			Market Value	Note	
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)			
Phison Electronics Corp.	<u>Beneficiary certificates - open-end funds</u>								
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 206,526	-	\$ 206,526	Note 3	
	FSITC Taiwan Money Market Fund	-	Same as above	13,369	206,334	-	206,334	Note 3	
	Franklin Templeton SinoAm Money Market Fund	-	Same as above	20,685	215,711	-	215,711	Note 3	
	Yuanta De-Li Money Market Fund	-	Same as above	9,298	152,850	-	152,850	Note 3	
	Jih Sun Money Market Fund	-	Same as above	13,767	205,809	-	205,809	Note 3	
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	16,113	203,552	-	203,552	Note 3	
	CTBC Hwa-win Money Market Fund	-	Same as above	18,239	202,588	-	202,588	Note 3	
	Prudential Financial Money Market Fund	-	Same as above	12,070	192,573	-	192,573	Note 3	
	Eastspring Investments Well Pool Money Market Fund	-	Same as above	14,734	202,042	-	202,042	Note 3	
	Taishin 1699 Money Market Fund	-	Same as above	14,809	202,082	-	202,082	Note 3	
	Taishin Ta-Chong Money Market Fund	-	Same as above	14,102	201,946	-	201,946	Note 3	
	TCB Taiwan Money Market Fund	-	Same as above	19,716	201,843	-	201,843	Note 3	
	Capital Money Market Fund	-	Same as above	12,416	201,952	-	201,952	Note 3	
	Yuanta De- Bao Money Market Fund	-	Same as above	4,130	50,008	-	50,008	Note 3	
	Yuanta Wan Tai Money Market Fund	-	Same as above	9,834	150,020	-	150,020	Note 3	
	Cathay Taiwan Money Market Fund	-	Same as above	15,959	200,034	-	200,034	Note 3	
	FSITC Money Market	-	Same as above	556	100,019	-	100,019	Note 3	
	Upamc James Bond Money Market Fund	-	Same as above	11,878	200,031	-	200,031	Note 3	
	Nomura Taiwan Money Market Fund	-	Same as above	12,165	200,035	-	200,035	Note 3	
	Fubon Chi-Hsiang Money Market Fund	-	Same as above	12,657	200,030	-	200,030	Note 3	
	Fuh Hwa You Li Money Market Fund	-	Same as above	14,732	200,031	-	200,031	Note 3	
	Fuh Hwa Money Market	-	Same as above	13,753	200,029	-	200,029	Note 3	
	Hua Nan Phoenix Money Market Fund	-	Same as above	12,208	200,034	-	200,034	Note 3	
	Hua Nan Kirin Money Market Fund	-	Same as above	16,579	200,032	-	200,032	Note 3	
	Union Money Market Fund	-	Same as above	15,029	200,038	-	200,038	Note 3	
		<u>Common shares</u>							
		Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	110,412	0.89	110,412	Note 4
		Apacer Technology Inc.	-	Same as above	10,050	394,965	9.96	394,965	Note 4
		JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	1,000	18,350	0.67	18,350	Note 5
		AppWorks Fund II Co., Ltd.	-	Same as above	7,500	213,729	11.11	213,729	Note 5
		Innorich Venture Capital Corp.	-	Same as above	3,000	17,841	5.61	17,841	Note 5
	AppWorks Fund I Co., Ltd.	-	Same as above	728	12,681	18.75	12,681	Note 5	
	Acer Synergy Tech Corp.	-	Same as above	900	32,024	6.91	32,024	Note 5	
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Same as above	50,000	37,939	1.08	37,939	Note 5	
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	529	-	0.60	-	-	

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	\$ 32,165	19.00	\$ 32,165	Note 5
	THLight Co., Ltd.	-	Same as above	6,388	-	13.19	-	-
	UD INFO Corp.	-	Same as above	963	80,991	17.65	80,991	Note 5
	GeoThings, Inc.	-	Same as above	150	-	5.36	-	-
	Ironyun Incorporated (preference shares)	-	Same as above	5,000	-	5.64	-	-
	Gospal Ltd.	-	Same as above	811,857	2,014	3.40	2,014	Note 5
	H3 Platform, Inc.	-	Same as above	18,400	12,895	12.14	12,895	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Same as above	11,966	62,303	17.16	62,303	Note 5
	Gomore Inc.	-	Same as above	16,925	8,879	3.39	8,879	Note 5
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	42,033	3.81	42,033	Note 5
	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,652	-	30,652	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	2,424	30,623	-	30,623	Note 3
	<u>Common shares</u>							
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,500	40,729	1.18	40,729	Note 5
	Translink Capital Partners IV L.P.	-	Same as above	670	21,910	0.59	21,910	Note 5
	Liquid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	114,791	6.70	114,791	Note 7
	UMBO CV Inc. (preference shares)	-	Same as above	1,626	7,024	2.34	7,024	Note 5
Omni Media International Incorporation	-	Same as above	1,714	17,588	2.60	17,588	Note 5	
RENIAC, INC. (preference shares)	-	Same as above	302	13,329	1.97	13,329	Note 5	
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	3,980	50,341	-	50,341	Note 3
	FSITC Money Market	-	Same as above	280	50,305	-	50,305	Note 3
	Taishin Ta-Chong Money Market Fund	-	Same as above	3,513	50,307	-	50,307	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Same as above	815	10,293	-	10,293	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Same as above	5,816	60,650	-	60,650	Note 3
	<u>Common shares</u>							
My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-	
Phisontech Electronics Taiwan Corp.	<u>Beneficiary certificates - open-end funds</u>							
	FSITC Money Market	-	Financial assets at FVTPL - current	56	10,023	-	10,023	Note 3
Super Storage Technology Corporation	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	833	8,325	13.88	8,325	Note 6

Note 1: The marketable securities listed refer to the types of financial instruments within the scope of IFRS 9 "Financial Instruments".

Note 2: The carrying amount is either the fair value or the original cost net of allowance loss.

Note 3: The calculation of the market value was based on the net asset value as of December 31, 2020.

Note 4: The calculation of the market value was based on the closing price as of December 31, 2020.

(Continued)

Note 5: Refer to Note 29 (b)-3 for market value information.

Note 6: The calculation of the market value was based on the most recent acquisition price.

Note 7: The calculation of the market value was based on the expert appraisal report on December 31, 2020.

Note 8: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

PHISON ELECTRONICS CORP.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance (Note)		Acquisition		Disposal				Ending Balance (Note)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
The Corporation	Phisontech Electronics Taiwan Corp.	Investments accounted for using the equity method	Subsidiary	Subsidiary	1,000	\$ 40,518	54,000	\$ 540,000	-	\$ -	\$ -	\$ -	55,000	\$ 609,344
	Kingston Solutions Inc.	Same as above	Kingston Technology Corporation	Non-related parties	10,605	965,294	-	-	10,605	1,781,640	1,072,154	967,348	-	-
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Same as above	Corporations and individuals	Non-related parties	-	-	34,843	452,954	-	-	-	-	34,843	486,048
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Same as above	Corporations	Non-related parties	Note 2	1,104,340	-	-	Note 2	2,670,895 (Note 3)	1,283,512 (Note 3)	4,092,853 (Note 3)	Note 2	1,393,661
	Hosin Global Electronics Co., Ltd. (SZ)	Same as above	Corporations	Associate	-	-	54,500 (Note 4)	1,410,024 (Note 4)	-	-	-	-	54,500	1,029,245

Note 1: The amounts of the beginning and ending balances include the valuation gains or losses on investments accounted for using the equity method.

Note 2: The company is not the one of the company limited by shares, therefore no number of shares were presented in the report.

Note 3: Refer to the Corporation's consolidated financial report Note 27 for related transactions.

Note 4: Refer to the Corporation's consolidated financial report Note 13 for related transactions.

PHISON ELECTRONICS CORP.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	Kingston Solutions Inc.	Investee company accounted for using the equity method	Purchase	\$ 170,286	1	Net 30 days after monthly closing	None	None	\$ -	-	1
	Kioxia America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	710,064	2	Net 30 days after receipt date	None	None	-	-	-
	Kioxia Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	9,876,557	35	Net 30 days after monthly closing	None	None	(1,063,257)	(30)	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-sub-subsidiary's associate	Purchase	131,841	-	Net 7 days after receipt date	None	None	(10,037)	-	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,774,367	5	Net 30 days after monthly closing	None	None	(208,547)	(6)	-
	Super Storage Technology Corporation	The subsidiary is its director	Processing cost	169,610	-	Net 30 days after monthly closing	None	None	-	-	2
	Super Storage Technology Corporation	Sub-subsidiary	Processing cost	186,267	-	Net 30 days after monthly closing	None	None	45,763	1	2
	Kioxia Corporation	The Corporation's legal entity board of directors	Sale	(641,484)	(1)	Net 60 days after monthly closing	None	None	42,000	1	-
	Solid State Storage Technology Corporation Hsinchu Science Park Branch	The sub-subsidiary of the Corporation's legal entity board of directors	Sale	(201,698)	-	Net 90 days after receipt date	None	None	21,961	-	-
	Kingston Solutions Inc.	Investee company accounted for using the equity method	Sale	(464,146)	(1)	Net 60 days after monthly closing	None	None	-	-	1
	Apacer Technology Inc.	The Corporation is its director	Sale	(1,084,371)	(2)	Net 45 days after monthly closing	None	None	247,337	4	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(673,765)	(1)	Net 30 days after monthly closing	None	None	-	-	3
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	Sale	(317,025)	(1)	Net 60 days after receipt date	None	None	101,882	2	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsidiary's associate	Sale	(240,433)	-	Net 45 days after monthly closing	None	None	116,308	2	-
	ProGrade Digital Incorporated	Investee company accounted for using the equity method	Sale	(149,310)	-	Net 30 days after receipt date	None	None	23,935	-	-

Note 1: Starting from September 2020, Kingston Solutions Inc. was no longer a related party.

Note 2: Starting from July 2020, Super Storage Technology Corporation became a subsidiary.

Note 3: Starting from November 2020, Hefei Core Storage Electronic Limited was no longer a subsidiary and transferred into investments accounted for using equity method (associate).

PHISON ELECTRONICS CORP.

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
The Corporation	Apacer Technology Inc.	The Corporation is its director	\$ 247,337	5.04	\$ -	-	\$ 247,336	\$ -
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the sub-subsidiary's associate	101,882	4.35	-	-	99,725	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the sub-subsidiary's associate	116,308	3.91	-	-	111,273	-

Note: As of March 3, 2021.

TABLE 5

PHISON ELECTRONICS CORP.

INFORMATION OF INVESTEEES
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
The Corporation	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ -	\$ 106,050	-	-	\$ -	\$ 324,705	\$ 106,860	-
	Emtops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	354,492	2,711	2,711	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	582,534	(1,803)	(1,803)	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	22,977	(2,910)	(1,426)	Investee company accounted for using the equity method
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	581,363	41,363	55,000,000	100.00	609,344	28,731	28,826	Subsidiary
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	32,512	757	757	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	726,307	1,158,472	22,100,000	100.00	4,387,550	3,928,788	3,928,788	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	-	91,422	-	-	-	-	2,560	-
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	269,809	620,955	269,531	Investee company accounted for using the equity method
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	94,274	(276)	(276)	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	315,133	261,532	261,532	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	393,214	21,900,000	100.00	1,142,311	65,200	65,200	Subsidiary
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	-	2,785,000	32.01	88,400	33,560	11,513	Investee company accounted for using the equity method
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	81,232	-	5,880	49.00	98,233	34,708	17,007	Investee company accounted for using the equity method

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	\$ 9,000	\$ 9,000	900,000	100.00	\$ 28,182	\$ (772)	\$ -	Sub-subsiidiary
	PMS Technology Corporation	Taiwan	Development and design of flash memory controllers and related products	-	2,000	-	-	-	396	-	-
Emtops Electronics Corporation	Phison Technology Inc.	USA	Sales and service office	90,419	31,415	3,000,000	100.00	92,182	4,892	-	Sub-subsiidiary
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	-	34,842,595	100.00	486,048	33,094	-	Sub-subsiidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	1,068,818	19,150,000	100.00	2,920,824	3,945,768	-	Sub-subsiidiary
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	88,725	58	-	Sub-subsiidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Manufacture and sale of flash memory related products	191,986	391,986	20,950,000	100.00	271,426	261,210	-	Sub-subsiidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	391,989	21,850,000	100.00	1,146,076	65,379	-	Sub-subsiidiary

(Concluded)

PHISON ELECTRONICS CORP.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2020	Percentage of Ownership (%)	Share of Profit (Loss) (Note 2)	Carrying Amount as of December 31, 2020	Accumulated Inward Remittance of Earnings as of December 31, 2020	Note
					Outflow	Inflow						
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ -	b (2)	\$ 53,096	\$ -	\$ -	\$ 53,096	-	\$ (1,992)	\$ -	\$ -	3
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of electronic product and technical support service and rendering of related services	1,059,715	b (2)	1,063,215	-	432,225	630,990	24.41	168,053	1,393,661	-	3
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	b (1)	182,825	-	-	182,825	100.00	(4,421)	170,044	-	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and rendering of related services and investment	-	b (2)	-	-	-	-	-	114,148	-	-	3
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services	735,136	b (1), b (2)	-	-	-	-	24.23	(11,810)	161,207	-	-
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,347,675	b (1), b (2)	183,640	259,140	-	442,780	34.43	92,744	1,973,587	-	-

Accumulated Investments in Mainland China as of December 31, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 1,309,691 (US\$ 41,332)	\$ 1,336,236 (US\$ 42,390)	\$ 21,093,280

(Continued)

Note 1: Method of investment:

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

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

Note 3: The Group lost control of Hefei Core Storage Electronic Limited in November, 2020. Therefore, Hefei Core Storage Electronic Limited and its subsidiaries were no longer included in the consolidated financial statement and transferred into investments accounted for using equity method. Refer to the Corporation's consolidated financial report Notes 13 and 27 for related information.

(Concluded)

PHISON ELECTRONICS CORP.

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	\$ 673,765	(1)	Net 30 days after monthly closing	None	None	\$ -	-	-
	Hefei Core Storage Electronic Limited	The reinvestment of the second-tier subsidiary's associate	Sale	88,916	-	Net 30 days after monthly closing	None	None	35,703	-	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the second-tier subsidiary's associate	Sale	317,025	(1)	Net 60 days after receipt date	None	None	101,882	2	-
	Hosin Global Electronics Co., Ltd. (SZ)	The reinvestment of the second-tier subsidiary's associate	Sale	6,446	-	Net 45 days after monthly closing	None	None	-	-	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Sale	240,433	-	Net 45 days after monthly closing	None	None	116,308	2	-
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Purchase	131,841	-	Net 7 days after receipt date	None	None	(10,037)	-	-
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Purchase	3,439	-	Net 60 days after monthly closing	None	None	-	-	-
Hefei Core Storage Electronic Limited	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of the reinvestment of the second-tier subsidiary's associate	Sale	1,328	-	Net 30 days after receipt date	None	None	-	-	-

TABLE 8**PHISON ELECTRONICS CORP.****INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Trust Investment Account of KIOXIA Corporation by First Bank	19,821,112	10.05

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Corporation as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.

PHISON ELECTRONICS CORP.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

<u>Item</u>	<u>Statement Index</u>
Major Accounting Items in Assets, Liabilities and Equity	
Statement of cash and cash equivalents	1
Statement of financial assets at fair value through profit or loss - current	2
Statement of accounts receivable	3
Statement of inventories	4
Statement of financial assets at fair value through profit or loss - non-current	5
Statement of financial assets at fair value through other comprehensive income - non-current	6
Statement of changes in investments accounted for using the equity method	7
Statement of accounts payable	8
Major Accounting Items in Profit or Loss	
Statement of operating revenue	9
Statement of operating costs	10
Statement of operating expenses	11
Statement of employee benefit by function	12

PHISON ELECTRONICS CORP.**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Description	Amount
Cash on hand		\$ 95
Cash in banks		
Demand deposits		6,777,933
Time deposits	Interest rate at 0.03%-2.6%, last maturity rate 110.3.29, including CNY23,000 thousand	4,258,321
Foreign currency deposits	US\$32,941 thousand, CNY168 thousand and JPY102,901 thousand	<u>967,334</u>
		<u>\$ 12,003,683</u>

Note: The exchange rate was US\$1=NT\$28.480, CNY1=NT\$4.377 and JPY1=NT\$0.2763.

PHISON ELECTRONICS CORP.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars)

Financial Instruments Name	Description	Shares or Units (In Thousands)	Book Value	Total	Rates	Acquisition Cost	Market Value		Amount of Changes in Fair Value Attributable to Changes in the Credit Risk	Remark
							Units Price	Total		
<u>Beneficiary certificates - open-end funds</u>										
Mega Diamond Money Market Fund		16,326	\$ -	\$ 206,526	-	\$ 200,000	\$ 12.65	\$ 206,526	-	Note 1
FSITC Taiwan Money Market Fund		13,369	-	206,334	-	200,000	15.43	206,334	-	Note 1
Franklin Templeton SinoAm Money Market Fund		20,685	-	215,711	-	210,000	10.43	215,711	-	Note 1
Yuanta De-Li Money Market Fund		9,298	-	152,850	-	150,000	16.44	152,850	-	Note 1
Jih Sun Money Market Fund		13,767	-	205,809	-	200,000	14.95	205,809	-	Note 1
Allianz Global Investors Taiwan Money Market Fund		16,113	-	203,552	-	200,000	12.63	203,552	-	Note 1
CTBC Hwa-win Money Market Fund		18,239	-	202,588	-	200,000	11.11	202,588	-	Note 1
Prudential Financial Money Market Fund		12,070	-	192,573	-	190,000	15.95	192,573	-	Note 1
Eastspring Investments Well Pool Money Market Fund		14,734	-	202,042	-	200,000	13.71	202,042	-	Note 1
Taishin 1699 Money Market Fund		14,809	-	202,082	-	200,000	13.65	202,082	-	Note 1
Taishin Ta-Chong Money Market Fund		14,102	-	201,946	-	200,000	14.32	201,946	-	Note 1
TCB Taiwan Money Market Fund		19,716	-	201,843	-	200,000	10.24	201,843	-	Note 1
Capital Money Market Fund		12,416	-	201,952	-	200,000	16.27	201,952	-	Note 1
Yuanta De- Bao Money Market Fund		4,130	-	50,008	-	50,000	12.11	50,008	-	Note 1
Yuanta Wan Tai Money Market Fund		9,834	-	150,020	-	150,000	15.26	150,020	-	Note 1
Cathay Taiwan Money Market Fund		15,959	-	200,034	-	200,000	12.53	200,034	-	Note 1
FSITC Money Market		556	-	100,019	-	100,000	179.85	100,019	-	Note 1
Upamc James Bond Money Market Fund		11,878	-	200,031	-	200,000	16.84	200,031	-	Note 1
Nomura Taiwan Money Market Fund		12,165	-	200,035	-	200,000	16.44	200,035	-	Note 1
Fubon Chi-Hsiang Money Market Fund		12,657	-	200,030	-	200,000	15.80	200,030	-	Note 1
Fuh Hwa You Li Money Market Fund		14,732	-	200,031	-	200,000	13.58	200,031	-	Note 1
Fuh Hwa Money Market		13,753	-	200,029	-	200,000	14.54	200,029	-	Note 1
Hua Nan Phoenix Money Market Fund		12,208	-	200,034	-	200,000	16.39	200,034	-	Note 1
Hua Nan Kirin Money Market Fund		16,579	-	200,032	-	200,000	12.07	200,032	-	Note 1
Union Money Market Fund		15,029	-	200,038	-	200,000	13.31	200,038	-	Note 1
<u>Common shares</u>										
Orient Semiconductor Electronics, Ltd.		7,336	10	110,412	-	67,382	15.05	110,412	-	Note 2
Apacer Technology Inc.		10,050	10	394,965	-	331,200	39.30	394,965	-	Note 2
				<u>\$ 5,201,526</u>				<u>\$ 5,201,526</u>		

Note 1: The calculation of the market value was based on the net asset value as of December 31, 2020.

Note 2: The calculation of the market value was based on the closing price as of December 31, 2020.

PHISON ELECTRONICS CORP.**STATEMENT OF ACCOUNTS RECEIVABLE****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

Client Name	Amount
Related parties	
Others (Note)	\$ 669,288
Unrelated parties	
Seagate SG	755,759
Patriot Memory Inc.	378,235
Kingston DIL	311,667
Others (Note)	<u>3,942,334</u>
	5,387,995
Less: Loss allowance	<u>(41,109)</u>
	<u>5,346,886</u>
 Net amount	 <u>\$ 6,016,174</u>

Note: The amount of individual client in others does not exceed 5% of the account balance.

PHISON ELECTRONICS CORP.**STATEMENT OF INVENTORIES****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

Item	Description	Amount	
		Cost	Net Realizable Value (Note 1)
Finished goods	Flash memory module products	\$ 49,886	\$ 49,966
Semi-finished goods	Flash memory module products, including PCBA	1,267,154	1,285,066
Work-in-process		3,521,681	3,547,373
Raw materials	FLASH, IC and packing materials	<u>5,298,146</u>	<u>5,348,040</u>
Net amount		<u>\$ 10,136,867</u>	<u>\$ 10,230,445</u>

Note 1: Raw materials, semi-finished goods, work-in-process, and finished goods are stated at the lower of cost or net realizable value.

Note 2: The insurance amount of inventories is \$13,547,714 thousand.

PHISON ELECTRONICS CORP.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - NON-CURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Instruments Name	Balance, January 1, 2020 (Note)		Additions in Investment		Decrease in Investment		Adjustments on Financial Instruments	Balance, December 31, 2020		Provide a Guarantee or Pledge	Remark
	Shares (In Thousands)	Fair Value	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Amount	Shares (In Thousands)	Market Value		
AppWorks Fund I Co., Ltd.	1,292	\$ 20,201	-	\$ -	(564)	\$ (5,640)	\$ (1,880)	728	\$ 12,681	None	Note
JAFCO Asia Technology Fund VI L.P.	1,000	18,849	-	-	-	-	(499)	1,000	18,350	None	Note
AppWorks Fund II Co., Ltd.	8,850	232,179	-	-	(1,350)	(13,500)	(4,950)	7,500	213,729	None	Note
Innorich Venture Capital Corp.	3,000	19,438	-	-	-	-	(1,597)	3,000	17,841	None	Note
Taishan Buffalo Investment Co., Ltd. (preference shares)	50,000	50,000	-	-	-	-	(12,061)	50,000	37,939	None	Note
Acer Synergy Tech Corp.	900	19,800	-	-	-	-	12,224	900	32,024	None	Note
Fuh Hwa Smart Energy Fund	6,000	45,408	-	-	-	-	(3,375)	6,000	42,033	None	Note
		<u>\$ 405,875</u>		<u>\$ -</u>		<u>\$ (19,140)</u>	<u>\$ (12,138)</u>		<u>\$ 374,597</u>		

Note: Refer to Note 26 (b)-3 for market value information.

PHISON ELECTRONICS CORP.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Instruments Name	Balance, January 1, 2020 (Note)		Additions in Investment		Decrease in Investment		Adjustments on Financial Instruments	Balance, December 31, 2020		Accumulated Impairment	Provide a Guarantee or Pledge	Remark
	Shares (In Thousands)	Fair Value	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Amount	Shares (In Thousands)	Market Value			
Aptos Technology Inc.	529	\$ -	-	\$ -	-	\$ -	\$ -	529	\$ -	-	None	
Viva Baseball Co., Ltd.	Note 2	-	-	-	-	(246)	246	-	-	-	None	
Adam Elements International Co., Ltd.	1,710	37,906	-	-	-	-	(5,741)	1,710	32,165	-	None	Note 1
THLight Co., Ltd.	6,388	-	-	-	-	-	-	6,388	-	-	None	
UD INFO Corp.	741	81,264	222	-	-	-	(273)	963	80,991	-	None	Note 1
GeoThings, Inc.	150	-	-	-	-	-	-	150	-	-	None	
Ironyun Incorporated (preference shares)	5,000	-	-	-	-	-	-	5,000	-	-	None	
Gospal Ltd.	811,857	3,156	-	-	-	-	(1,142)	811,857	2,014	-	None	Note 1
H3 Platform, Inc.	18,400	14,141	-	-	-	-	(1,246)	18,400	12,895	-	None	Note 1
CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	11,966	67,208	-	-	-	-	(4,905)	11,966	62,303	-	None	Note 1
Gomore Inc.	16,925	10,061	-	-	-	-	(1,182)	16,925	8,879	-	None	Note 1
		<u>\$ 213,736</u>		<u>\$ -</u>		<u>\$ (246)</u>	<u>\$ (14,243)</u>		<u>\$ 199,247</u>			

Note 1: Refer to Note 26 (b)-3 for market value information.

Note 2: The company is not the one of the company limited by shares, therefore no number of shares were presented in the report.

PHISON ELECTRONICS CORP.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Book Value	Beginning Balance		Increase		Decrease		Adjustments Amount (Note1)	Ending Balance			Net Assets Value	Remark
		Thousand Shares	Amount	Thousand Shares	Amount	Thousand Shares	Amount		Thousand Shares	Percentage of Ownership (%)	Amount		
Investments accounted for using the equity method													
Unlisted shares													
Investments in subsidiaries													
Global Flash Limited	US\$ 1	37,100	\$ 1,157,998	-	\$ -	(15,000)	\$ (432,165)	\$ 3,661,717	22,100	100.00	\$ 4,387,550	\$ 4,392,033	Note 1
Lian Xu Dong Investment Corporation	NT\$ 10	65,000	676,498	-	-	-	-	(93,964)	65,000	100.00	582,534	582,534	Note 1
Emtops Electronics Corp.	NT\$ 10	38,000	355,076	-	-	-	-	(584)	38,000	100.00	354,492	354,492	Note 1
Phisontech Electronics Taiwan Corp.	NT\$ 10	1,000	40,518	54,000	540,000	-	-	28,826	55,000	100.00	609,344	609,249	Note 1
Phisontech Electronics (Malaysia) Sdn. Bhd.	MYR 1	10,000	59,482	-	-	(10,000)	(62,846)	3,364	-	-	-	-	Note 1
Phison Electronics Japan Corp.	JPY 100,000	2	31,722	-	-	-	-	790	2	100.00	32,512	32,512	Note 1
Power Flash (Samoa) Limited	US\$ 1	3,200	99,223	-	-	-	-	(4,949)	3,200	100.00	94,274	94,274	Note 1
Everspeed Technology Limited	US\$ 1	1,000	343,601	-	-	-	-	(28,468)	1,000	100.00	315,133	315,133	Note 1
Regis Investment (Samoa) Limited	US\$ 1	13,000	502,266	8,900	262,781	-	-	377,264	21,900	100.00	1,142,311	1,147,352	Note 1
			3,266,384		802,781		(495,011)	3,943,996			7,518,150		
Investments in associates													
Kingston Solutions Inc.	NT\$ 10	10,605	965,294	-	-	(10,605)	(1,072,154)	106,860	-	-	-	-	Note 1
Microtops Design Corporation	NT\$ 10	2,264	24,403	-	-	-	-	(1,426)	2,264	49.00	22,977	46,893	Note 1
Epostar Electronics (BVI) Corporation	US\$ 0.1	10,600	-	-	-	-	-	269,809	10,600	37.82	269,809	713,403	Note 1
ProGrade Digital, Inc.	US\$ 1	-	-	2,785	83,439	-	-	4,961	2,785	32.01	88,400	111,593	Note 1
Nextorage Corporation	JPY 50,000	-	-	6	81,232	-	-	17,001	6	49.00	98,233	310,271	Note 1
			989,697		164,671		(1,072,154)	397,205			479,419		
			\$ 4,256,081		\$ 967,452		\$ (1,567,165)	\$ 4,341,201			\$ 7,997,569		

Note 1: Adjustments amount include:

a. Share of profits of subsidiaries and associates	\$ 4,691,780
b. Exchange differences on translating foreign operations	99,613
c. Changes in capital surplus and retained earnings	(98,679)
d. Share of other comprehensive loss	(33,007)
e. Cash dividends	(314,437)
f. Unrealized gain on transactions	(4,069)
	<u>\$ 4,341,201</u>

PHISON ELECTRONICS CORP.**STATEMENT OF ACCOUNTS PAYABLE****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

Vendor Name	Amount
Related parties	
Kioxia Taiwan Corporation	\$ 1,063,257
Orient Semiconductor Electronics Ltd.	208,547
Others (Note)	<u>65,838</u>
	<u>1,337,642</u>
Non-related parties	
Yangtze Memory Technologies Co., Ltd.	497,403
Micron MSAO	245,567
Others (Note)	<u>1,420,984</u>
	<u>2,163,954</u>
	<u>\$ 3,501,596</u>

Note: Each of the suppliers was less than 5% of the total account balance.

PHISON ELECTRONICS CORP.**STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

Item	Quantity (Thousands)	Amount
Gross sales		
Flash memory module products	134,764	\$ 37,999,557
Integrated Circuit	40,438	2,050,665
Controllers	354,597	7,476,435
Others		<u>1,156,590</u>
		48,683,247
Less: Sales returns and allowances		<u>(506,537)</u>
Net sales		48,176,710
Services and royalties income		<u>173,717</u>
		<u>\$ 48,350,427</u>

PHISON ELECTRONICS CORP.**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

Item	Amount
Raw materials, beginning of year	\$ 6,906,706
Add: Raw material purchased	27,773,486
Less: Others	175,043
Raw materials, end of year	<u>5,298,146</u>
Direct raw material used	29,207,003
Direct labor	37,353
Manufacturing expenses	<u>6,813,961</u>
Manufacturing cost	36,058,317
Add: Semi-finished goods, beginning of year	1,751,589
Work in process, beginning of year	2,665,101
Semi-finished goods and work in process purchased	685,494
Less: Semi-finished goods, end of year	1,267,154
Work in process, end of year	3,521,681
Others	<u>244,177</u>
Cost of finished goods	36,127,489
Add: Finished goods, beginning of year	120,337
Finished goods purchased	1,757
Less: Finished goods, end of year	49,886
Others	<u>8,331</u>
Cost of finished goods sold	36,191,366
Add: Merchandise, beginning of year	-
Merchandise purchased	59
Less: Merchandise, end of year	-
Others	<u>-</u>
Operating costs	<u>\$ 36,191,425</u>

PHISON ELECTRONICS CORP.
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

	Marketing	General and Administrative	Research and Development	Expected Credit gains	Total
Salaries	\$ 383,253	\$ 519,304	\$ 4,970,746	\$ -	\$ 5,873,303
Mask	-	-	353,423	-	353,423
Promotion service	197,587	-	-	-	197,587
Commission	96,982	-	-	-	96,982
Professional service	482	41,344	27,037	-	68,863
Royalties	51,467	-	24,005	-	75,472
Expected credit gains	-	-	-	(56,269)	(56,269)
Others (Note)	<u>149,271</u>	<u>158,899</u>	<u>1,388,352</u>	<u>-</u>	<u>1,696,522</u>
	<u>\$ 879,042</u>	<u>\$ 719,547</u>	<u>\$ 6,763,563</u>	<u>\$ (56,269)</u>	<u>\$ 8,305,883</u>

Note: Total amount of each item in others does not exceed 5% of the account balance.

PHISON ELECTRONICS CORP.

STATEMENT OF EMPLOYEE BENEFIT BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars)

	2020			2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Salary	\$ 237,049	\$ 5,641,661	\$ 5,878,710	\$ 163,085	\$ 3,825,914	\$ 3,988,999
Insurance	24,442	184,173	208,615	17,100	156,151	173,251
Post-employment benefits	11,495	103,686	115,181	8,372	89,132	97,504
Directors' remuneration	-	39,283	39,283	-	24,500	24,500
Share-based payment	9,836	186,134	195,970	-	-	-
Others	19,321	99,640	118,961	13,962	91,452	105,414
Total of labor cost	\$ 302,143	\$ 6,254,577	\$ 6,556,720	\$ 202,519	\$ 4,187,149	\$ 4,389,668

Note 1: For the years ended December 31, 2020 and 2019, the average numbers of the Corporation's employees were 2,000 and 1,692, respectively, including 4 and 3 non-employee directors, respectively.

Note 2: For the years ended December 31, 2020 and 2019, the average labor cost were \$3,265 thousand and \$2,584 thousand.

Note 3: For the years ended December 31, 2020 and 2019, the average salary were \$2,945 thousand and \$2,362 thousand.

Note 4: The average salary were changed by 25%.

Note 5: For the years ended December 31, 2020 and 2019, the average compensation of supervisors were \$5,717 thousands and \$10,500 thousands, respectively. In addition, the Audit Committee was set up to replace supervisors in June 2020 in accordance with Securities and Exchange Act and the Corporation's Articles.

Note 6: The Corporation's policy on the remuneration of directors and supervisors: The policy is provided in the Corporation's Articles of Incorporation, Article 16 which states that "Remuneration of the chairperson and directors of the Corporation shall be determined by the board of directors based on the value of the involvement and contribution of the chairperson and each director in the operation of the Corporation, and with reference to industry standards." and Article 19 which states that "If the Corporation makes profit in the year, it shall appropriate 8% to 19% for compensation of employees and no more than 1.5% for remuneration of directors." No other remuneration of whatever kind or nature shall be made to the directors. For the determination of the amount of remuneration, the board of directors shall refer to the result of "Self-evaluation or peer-evaluation of the board of directors" as well as to the result of the evaluation of the performance of each director and supervisor, including attendance in meetings and continuing education of the board of directors. The remuneration committee will review the evaluation of each director and submit recommendation to the board of directors. The remuneration system shall be reviewed at any time necessary in the actual operating conditions in accordance with the provisions of relevant laws and regulations, in order to achieve the balance of the Corporation's sustainable operation and risk control.

Note 7: The Corporation's policy on the salary and remuneration of employees: Remuneration of employees is divided into fixed and variable salary items. The fixed salary is based on the salary classification standard of the employee's position; the variable salary is based on the Corporation's operating results, and is distributed corresponding to the employee's individual performance assessment. The policy is reviewed and modified timely based on actual operating conditions, market trends and relevant laws and regulations.

Note 8: The Corporation's policy on the remuneration of managers: The remuneration policy is reviewed regularly by the remuneration committee, and the content and amount of remuneration are determined individually based on the manager's achievement of performance goals; then, recommendations are submitted to the board of directors for discussion and decision. The policy is reviewed and modified timely based on actual operating conditions, market trends and relevant laws and regulations.

Phison Electronics Corporation

Chairman : KS Pua



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