Innodisk Corporation and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

Years Ended December 31,2020 and 2019

(Stock Code: 5289)

Company Address: 5F, No. 237, Section 1, Datong Road, Xizhi District, New Taipei City

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Innodisk Corporation and Subsidiaries

2020 and 2019 Consolidated Financial Statements and Independent Auditor's Report

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Innodisk Corporation

Declaration of Consolidated Financial of Affiliated Enterprises

For the year ended December 31, 2020, pursuant to "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises," the Group that is required to be included in the consolidated financial statements of affiliates, is the same as the Group required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. If 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, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Company Name: Innodisk Corporation

Responsible Person: Chien, Chuan-Sheng

February 25, 2021

Independent Auditor's Report Translated from Chinese

To the Board of Directors and Stockholders of Innodisk Corporation:

Opinion

We have audited the accompanying consolidated balance sheets of Innodisk Corporation and subsidiaries (the “Group”) as of December 31, 2020 and 2019,and the related consolidated statements of comprehensive income, of changes in equity and cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards 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 in 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 that, in our professional judgment, were of most significance in our audit of the Group’s 2020 consolidated financial statements. 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.

Key audit matters for the Group’s 2020 consolidated financial statements are stated as follows:

Key audit matter –Inventory Evaluation

Description

With respect to the accounting policy for inventory valuation, please refer to Note 4 (12) of the consolidated financial statements. For the uncertainty of accounting estimates and assumptions applied in inventory valuation, please refer to Note 5 (2). For the accounting entries of inventory, please refer to Note 6 (4).

Innodisk Group mainly manufactures and sells industrial storage devices and memory modules. Due to technological changes and price fluctuation of key raw materials, Innodisk's inventory is measured at the lower of cost and net realizable value and at the same time supplemented by separate identification of the usability of long-term inventory to recognize valuation loss. As the inventory valuation of Innodisk involves subjective judgment and the valuation is material to consolidated financial statements, we consider the inventory valuation as one of the key matters for audit.

How our audit addressed the matter

The scope of our audit responded to the risk as follows:

1. Obtained the Group’s policy applied to the assessment of allowance for valuation of inventory loss. Assessed whether the allowance recognition policy is applied in a manner consistent between comparative and current periods of the financial statements.
2. Obtained net realisable value report for inventory items and verified that a consistent systematic logic was applied to the calculation. First, tested the assumptions such as: sources of sales data and relevant supporting estimation documents. Second, recalculated net realisable value item by item, then applied the lower of cost or net realizable value method for valuation and whether reasonable allowance was recognised.
3. Obtain an inventory aging report to conduct inventory aging test. Random sampling of inventory and compare inventory transaction records to confirm the classification of aging intervals.

4. Compared current and previous year's allowance for valuation of inventory loss and reviewed the reasonableness of allowance recognised.

Key audit matter – Existence of Sales Revenue

Description

For the accounting policy of income recognition, please refer to Note 4 (29) of the consolidated financial statements. For the description of accounting entries of sales revenue, please refer to Note 6 (19).

Innodisk Group is mainly engaged in the research, development, manufacturing and sales of industrial storage devices and memory modules. Because product diversification and innovation affect changes to the top ten customers' sales and the large transactions with top ten customers require much resources in audit, we have listed the existence of sales revenue of the top ten customers as one of the important items for audit.

How our audit addressed the matter

The scope of our audit responded to the risk as follows:

1. Obtained an understanding of the process and basis of sales revenue recognition and cash collection with the top ten customers to evaluate the effectiveness of internal control of sales revenue recognition by the management, and test the effectiveness of internal control with shipping, billing and payment collection.
2. Obtain the evaluation data of the top ten customers, search for relevant information and verify them.
3. Test if the credit conditions for the top ten customers have been properly approved.
4. Selected samples of details of for the top ten customers to verify the related vouchers and status of subsequent payment collection.
5. Obtain details of sales returns in the subsequent period of the top ten customers and examine the status of sales returns.

Other Matters -- Standalone Financial Report

We have audited and expressed a modified opinion on the standalone financial statements of the Innodisk Corporation for the years ended December 31, 2020 and 2019.

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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 generally accepted auditing standards 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 withthe generally accepted auditing standards 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 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Yeh, Tsui Miao　　　　Huang, Shih-Chun

For and on behalf of PricewaterhouseCoopers, Taiwan

February 25, 2021

Innodisk Corporation and Subsidiaries
Consolidated Balance Sheet
December 31, 2020 and 2019

Unit: Thousand NTD

	Asset	Note	December 31, 2020 Amount	%	December 31, 2019 Amount	%
	Current assets					
1100	Cash and cash equivalents	6 (1)	$ 2,260,204	36	$ 1,904,628	34
1136	Current financial assets at amortised cost	6 (2)	400,000	7	150,000	3
1150	Notes receivable, net	6 (3)	258	-	1,366	-
1170	Accounts receivable, net	6 (3)	879,782	14	964,038	17
1180	Accounts receivable -- related parties	6 (3) and 7 (2)	72	-	76	-
1200	Other receivables		3,736	-	4,595	-
1210	Other receivables -- related parties	7 (2)	273	-	162	-
1220	Current income tax assets	6 (26)	777	-	419	-
130X	Inventories, net	6 (4)	791,673	13	773,066	14
1410	Prepayments	7 (2)	56,228	1	75,371	1
11XX	**Current Assets**		4,393,003	71	3,873,721	69
	Non-current assets					
1550	Investments accounted for using equity method	6 (5)	33,123	1	28,956	1
1600	Property, plant and equipment	6 (6)	1,374,994	22	1,373,991	24
1755	Right-of-use assets	6 (7)	213,356	3	132,783	2
1760	Investment property, net	6 (9)	102,216	2	115,926	2
1780	Intangible assets	6 (10)	28,927	-	24,367	-
1840	Deferred income tax assets	6 (26)	43,707	1	40,787	1
1900	Other non-current assets	8	28,544	-	56,918	1
15XX	**Non-current assets**		1,824,867	29	1,773,728	31
1XXX	**Total Assets**		$ 6,217,870	100	$ 5,647,449	100

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Innodisk Corporation and Subsidiaries
Consolidated Balance Sheet
December 31, 2020 and 2019

Unit: Thousand NTD

	Liabilities and Equity	Note	December 31, 2020 Amount	%	December 31, 2019 Amount	%
	Current liabilities					
2130	Current contract liabilities	6 (19)	$ 41,011	1	$ 17,986	-
2170	Accounts payable		565,168	9	429,449	8
2200	Other payables	6 (21)	319,597	5	323,116	6
2230	Current income tax liabilities	6 (26)	114,838	2	161,319	3
2250	Provisions for liabilities-current	6 (15)	61,444	1	59,094	1
2280	Current lease liabilities		22,098	-	17,793	-
2320	Long-term liabilities -- current portion	6 (12)	2,451	-	2,351	-
2399	Other current liabilities, others		14,318	-	4,768	-
21XX	**Current Liabilities**		1,140,925	18	1,015,876	18
	Non-current liabilities					
2540	Long-term loans	6 (12)	17,860	1	19,482	-
2580	Non-current lease liabilities		192,781	3	115,732	2
2600	Other non-current liabilities	7 (2)	1,243	-	1,339	-
25XX	**Non-current Liabilities**		211,884	4	136,553	2
2XXX	**Total liabilities**		1,352,809	22	1,152,429	20
	Equity attributable to owners of parent					
	Share capital	6 (16)				
3110	Share capital - common stock		813,240	13	797,294	14
	Capital surplus	6 (17)				
3200	Capital surplus		1,082,702	17	1,058,681	19
	Retained earnings	6 (18)				
3310	Legal reserve		517,734	8	416,308	7
3320	Special reserve		4,080	-	-	-
3350	Unappropriated retained earnings		2,403,928	39	2,193,268	39
	Other equity interest					
3400	Other equity interest		(5,438)	-	(4,080)	-
31XX	**Equity attributable to owners of the parent**		4,816,246	77	4,461,471	79
36XX	**Non-controlling interest**		48,815	1	33,549	1
3XXX	**Total equity**		4,865,061	78	4,495,020	80
	Significant contingent liabilities and unrecognized contract commitments	9				
	Significant events after the balance sheet date	11				
3X2X	**Total Liabilities and Equity**		$ 6,217,870	100	$ 5,647,449	100

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction.

Chairman: Chien, Chuan-Sheng　　Manager: Chien, Chuan-Sheng　　Head of Accounting: Liao, Shu-Nu

Innodisk Corporation and Subsidiaries
Consolidated Statement of Comprehensive Income
December 31, 2020 and 2019

Unit: Thousand NTD
(Except for earnings per share)

	Item	Note	2020 Amount	2020 %	2019 Amount	2019 %
4000	Operating revenue	6 (19) and 7 (2)	$ 7,152,015	100	$ 7,361,665	100
5000	Operating costs	6 (4) and 7 (2)	(5,018,288)	(70)	(5,043,889)	(68)
5950	Gross profit before unrealized gross profit on sales to subsidiaries		2,133,727	30	2,317,776	32
	Operating expenses	6 (24) and 7 (2)				
6100	Selling expenses		(399,802)	(6)	(412,484)	(6)
6200	General and administrative expenses		(364,070)	(5)	(370,868)	(5)
6300	Research and development expenses		(155,922)	(2)	(148,031)	(2)
6450	Expected gain (loss) on credit impairment	12 (2)	(6,640)	-	2,494	-
6000	Total operating expenses		(926,434)	(13)	(928,889)	(13)
6900	Operating profit		1,207,293	17	1,388,887	19
	Non-operating income and expenses					
7100	Interest income	6 (20)	6,539	-	7,615	-
7010	Other income	6 (21) and 7 (2)	22,031	-	13,785	-
7020	Other gains and losses	6 (22)	(52,721)	(1)	(35,497)	-
7050	Finance cost	6 (23)	(2,293)	-	(2,282)	-
7060	Shares of losses of associates and joint ventures accounted for using equity method	6 (5)	(13,253)	-	(57,873)	(1)
7000	Total non-operating income and expenses		(39,697)	(1)	(74,252)	(1)
7900	**Profit before income tax**		1,167,596	16	1,314,635	18
7950	Income tax expense	6 (26)	(227,063)	(3)	(285,436)	(4)
8200	**Profit for the year**		$ 940,533	13	$ 1,029,199	14
	Other comprehensive income					
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		($ 1,358)	-	($ 4,957)	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method		-	-	380	-
8360	Components of other comprehensive loss that will be reclassified to profit or loss		(1,358)	-	(4,577)	-
8300	**Other comprehensive loss for the period, net tax**		($ 1,358)	-	($ 4,577)	-
8500	**Total comprehensive income for the year**		$ 939,175	13	$ 1,024,622	14
	Profitattributable to:					
8610	Owners of the parent		$ 931,663	13	$ 1,014,254	14
8620	Non-controlling interest		8,870	-	14,945	-
	Profit		$ 940,533	13	$ 1,029,199	14
	Comprehensive income attributable to					
8710	Ownersof the parent		$ 930,305	13	$ 1,009,677	14
8720	Non-controlling interest		8,870	-	14,945	-
	Total comprehensive income for the year		$ 939,175	13	$ 1,024,622	14
	Basic earnings per share	6 (27)				
9750	Basic earnings per share		$	11.46	$	12.47
	Diluted earnings per share	6 (27)				
9850	Diluted earnings per share		$	11.21	$	12.29

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction.

Chairman: Chien, Chuan-Sheng　　Manager: Chien, Chuan-Sheng　　Head of Accounting: Liao, Shu-Nu

Innodisk Corporation and Subsidiaries
Consolidated Statement of Changes in Equity
December 31, 2020 and 2019

Unit: Thousand NTD

		Equity attributable to shareholders of the parent company								
				Retained earnings			Other equity interests			
	Note	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences arising on translation of foreign operations	Total	Non-controlling interests	Total equity
2019										
Balance at January 1, 2019		$ 781,661	$ 1,037,330	$ 332,000	$ 6,193	$ 1,741,759	$ 497	$ 3,899,440	$ 17,012	$ 3,916,452
Net income for 2019		-	-	-	-	1,014,254	-	1,014,254	14,945	1,029,199
Other comprehensive profit and loss for the year		-	-	-	-	-	(4,577)	(4,577)	-	(4,577)
Total comprehensive profit and loss for the year		-	-	-	-	1,014,254	(4,577)	1,009,677	14,945	1,024,622
Appropriations of 2018 earnings	6 (18)									
Legal reserve		-	-	84,308	-	(84,308)	-	-	-	-
Special reserve		-	-	-	(6,193)	6,193	-	-	-	-
Stock dividends		15,633	-	-	-	(15,633)	-	-	-	-
Cash dividends		-	-	-	-	(468,997)	-	(468,997)	-	(468,997)
Share-based payment	6 (14)	-	21,081	-	-	-	-	21,081	-	21,081
Changes in shareholders' equity in subsidiaries not recognized proportionately to ownership		-	-	-	-	-	-	-	1,592	1,592
Share-based remuneration for employees of subsidiaries		-	270	-	-	-	-	270	-	270
Balance at December 31, 2019		$ 797,294	$ 1,058,681	$ 416,308	$ -	$ 2,193,268	($ 4,080)	$ 4,461,471	$ 33,549	$ 4,495,020
2020										
Balance at January 1, 2020		$ 797,294	$ 1,058,681	$ 416,308	$ -	$ 2,193,268	($ 4,080)	$ 4,461,471	$ 33,549	$ 4,495,020
Net income for 2020		-	-	-	-	931,663	-	931,663	8,870	940,533
Other comprehensive profit and loss for the year		-	-	-	-	-	(1,358)	(1,358)	-	(1,358)
Total comprehensive profit and loss for the year		-	-	-	-	931,663	(1,358)	930,305	8,870	939,175
Appropriations of 2019 earnings	6 (18)									
Legal reserve		-	-	101,426	-	(101,426)	-	-	-	-
Special reserve		-	-	-	4,080	(4,080)	-	-	-	-
Stock dividends		15,946	-	-	-	(15,946)	-	-	-	-
Cash dividends		-	-	-	-	(597,971)	-	(597,971)	-	(597,971)
Share-based payment	6 (14)	-	22,864	-	-	-	-	22,864	-	22,864
Change in net assets of the associates and joint ventures accounted for using equity method		-	-	-	-	(1,580)	-	(1,580)	-	(1,580)
Share-based remuneration for employees of subsidiaries		-	1,157	-	-	-	-	1,157	2,903	4,060
Transactions with non-controlling interests		-	-	-	-	-	-	-	3,493	3,493
Balance at December 31, 2020		$ 813,240	$ 1,082,702	$ 517,734	$ 4,080	$ 2,403,928	($ 5,438)	$ 4,816,246	$ 48,815	$ 4,865,061

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction.

Chairman: Chien, Chuan-Sheng　　Manager: Chien, Chuan-Sheng　　Head of Accounting: Liao, Shu-Nu

Innodisk Corporation and Subsidiaries
Consolidated Cash Flow Statement
December 31, 2020 and 2019

Unit: Thousand NTD

	Note	January 1 to December 31, 2020	January 1 to December 31, 2019
Cash flow from operating activities			
Profit before income tax for the year		$ 1,167,596	$ 1,314,635
Adjustments:			
Adjustments to reconcile profit (loss)			
Depreciation charges on property, plant and equipment	6 (24)	69,865	52,730
Depreciation charges on right-of-use assets	6 (24)	24,302	21,857
Amortization charges on the intangible assets and deferred assets.	6 (24)	20,294	28,025
Depreciation charges on investment property	6 (22)	1,449	1,642
Expected credit (profit) loss	12 (2)	6,640	(2,494)
Loss on decline in (gain from reversal of) market value and obsolete and slow-moving inventories	6 (4)	8,999	(65,892)
Loss on scrapping inventory	6 (4)	10,707	12,441
Gain on lease modification	6 (7)	(3)	(4)
Interest expense	6 (23)	2,293	2,282
Interest income	6 (20)	(6,539)	(7,615)
Compensation cost of employee stock options	6 (14)	22,864	21,081
Shares of losses of associates accounted for using equity method	6 (5)	13,253	57,873
Loss on disposal of property, plant and equipment	6 (22)	57	300
Gain on disposal of intangible assets	6 (22)	(2,842)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		1,108	1,002
Accounts receivable		77,616	52,355
Accounts receivable -- related parties		4	(60)
Other receivables		811	(1,038)
Other receivables -- related parties		(111)	203
Inventories		(38,313)	10,061
Prepayments		(4,667)	(19,080)
Changes in operating liabilities			
Current contract liabilities		23,025	(7,239)
Accounts payable		135,719	(142,107)
Accounts payable -- related parties		-	(109)
Other payables		7,962	19,682
Current provisions for liabilities		2,350	14,084
Other current liabilities -- others		9,550	1,095
Cash inflow generated from operations		1,553,989	1,365,710
Interest received		6,587	7,469
Income taxes refund		-	4,610
Income taxes paid		(280,864)	(280,935)
Net cash flows from operating activities		1,279,712	1,096,854

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Innodisk Corporation and Subsidiaries
Consolidated Cash Flow Statement
December 31, 2020 and 2019

Unit: Thousand NTD

	Note	January 1 to December 31, 2020	January 1 to December 31, 2019
Cash Flow from Investing Activities			
Increase in financial assets at amortized cost		($ 250,000)	($ 150,000)
Acquisition of investments accounted for using equity method	6 (5)	(19,000)	(12,900)
Proceeds from disposal of investments accounted for using equity method	6 (28)	3,493	-
Acquisition of property, plant and equipment	6 (29)	(33,258)	(77,739)
Disposal of property, plant and equipment		-	105
Increase in refundable deposits		(7,584)	(418)
Decrease in refundable deposits		1,108	886
Acquisition of intangible assets	6 (10)	(13,342)	(5,613)
Disposal of intangible assets		26,652	-
Acquisition of investment property	6 (9)	-	(1,114)
Increase in the other non-current assets		(15,495)	(30,040)
Net cash used in investing activities		(307,426)	(276,833)
Cash Flow from Financing Activities			
Proceeds from long-term debt	6 (30)	-	6,718
Repayment of long-term debt	6 (30)	(2,360)	(101,680)
Increase in guarantee deposits received	6 (30)	601	175
Decrease in guarantee deposits received	6 (30)	(709)	-
Cash dividends paid	6 (30)	(597,971)	(468,997)
Interest paid		(2,269)	(2,325)
Payment of lease liabilities	6 (30)	(23,390)	(22,064)
Net cash used in financing activities		(626,098)	(588,173)
Effects of changes in foreign exchange rates		9,388	230
Increase in cash and cash equivalents		355,576	232,078
Cash and cash equivalents at beginning of year		1,904,628	1,672,550
Cash and cash equivalents at end of year		$ 2,260,204	$ 1,904,628

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction.

Chairman: Chien, Chuan-Sheng Manager: Chien, Chuan-Sheng Head of Accounting: Liao, Shu-Nu

Innodisk Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019

Unit: Thousand NTD
(Except as otherwise indicated)

I. Company history

(I) Innodisk Corporation (hereinafter referred to as the "Company") was established in March 2005. The Company and its subsidiaries (hereinafter referred to as the "Group") mainly engage in the research, development, manufacturing and sales of various types of industrial embedded storage devices.

(II) The Taipei Exchange reviewed the Company's application and approved its eligibility to be publicly traded in October, 2013 and the Company became officially on the OTC board on November 27, 2013.

II. The date of authorisation for issuance of the financial statements and procedures for authorisation

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 25, 2021.

III. Application of new standards, amendments and interpretations

(I) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC").

The following table summarizes the applicable newly released, corrected and amended standards and interpretations of the International Financial Reporting Standards recognized by the Financial Supervisory Commission in 2020:

Newly released / corrected / amended standards and interpretations	Effective Date Issued by IASB
IAS 1 and IAS 8 amendments, Disclosure Initiative - Definition of Materials.	January 1, 2020
IFRS 3 amendments, Definition of a business	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 -- Interest rate benchmark reform	January 1, 2020
Amendment to IFRS 16 "Rent Reduction associated with the Covid-19 pandemic."	June 1, 2020 (Note).

Note: The Financial Supervisory Commission allowed an earlier application date of January 1, 2020.

The Group believes that the adoption of aforementioned IFRSs will not have a significant effect on the consolidated financial position and performance.

(II) Effect of the new issuances of or amendments to IFRS as endorsed by the FSC but not yet adopted by the Company.

The following table summarizes the applicable newly released, corrected and amended standards and interpretations of the International Financial Reporting Standards recognized by the Financial Supervisory Commission in 2021:

Newly released / corrected / amended standards and interpretations	Effective Date Issued by IASB
Amendment to IFRS 4 "Extension of Provisional Exemption for Application of IFRS 9"	January 1, 2021
Amendments to the IFRS 9, IAS 39, and IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase II"	January 1, 2021

The Group believes that adopting the aforementioned IFRSs will not have a significant effect on the consolidated financial position and performance.

(III) IFRSs issued by the IASB but not yet endorsed by the FSC.

The following table summarizes the applicable newly released, corrected and amended standards and interpretations of the International Financial Reporting Standards issued by the IASB but not yet recognized by the FSC:

Newly released / corrected / amended standards and interpretations	Effective Date Issued by IASB
Amendment to IFRS 3 "Update the index of the conceptual framework."	January 1, 2022
IFRS 10 and IAS 28 amendments, Sale or contribution of assets between an investor and its associate or joint venture	To be determined by the IASB.
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendment to IFRS 17 "Insurance Contracts" and amendment to	January 1, 2023
IFRS 1 "Current or non-current classification of liabilities."	January 1, 2023
Amendment to IAS 1 "Disclosure of Accounting Policies."	January 1, 2023
Amendment to IAS 8 "Disclosure of Accounting Policies."	January 1, 2023
Amendment to IAS 16 "Property, plant and equipment: price before	January 1, 2022
reaching the intended state of use"	January 1, 2022
Amendment to IAS 37 "Onerous Contracts - Cost of Performing Contracts" Improvements for 2018-2020	January 1, 2022

The Group believes that the adoption of aforementioned IFRSs will not have a significant effect on the consolidated financial position and performance.

IV. Summary of significant accounting policies

The principal accounting polices applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(I) Compliance statement

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

(II) Basis of preparation

1. The consolidated financial report has been prepared under the historical cost convention.

2. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

(III) Basis of consolidation

1. The basis for preparation of consolidated financial statements

(1) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(2) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(3) The profit and loss and the components of other comprehensive income attribute to the owners of the parent company and non-controlling interest. The total comprehensive income also attributes to the owners of the parent company and non-controlling interest, even if this results in the non-controlling interests having a deficit balance.

(4) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are equity transactions, and they are considered as transactions with owners in their capacity as owners. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is directly recognized in equity.

2. Subsidiaries included in the consolidated financial statements:

			Ownership (%)		
Name of Investor	Name of Subsidiary	Main Business Activity	December 31, 2020	December 31, 2019	Remarks
Innodisk Corporation	Innodisk USA Corporation	Industrial embedded storage devices	100	100	
Innodisk Corporation	Innodisk Japan Corporation	After-sales services and support of industrial embedded storage devices	100	100	
Innodisk Corporation	Innodisk Europe B.V.	After-sales services and support of industrial embedded storage devices	100	100	
Innodisk Corporation	Innodisk Global-M Corporation	Investment holdings	100	100	Note 1
Innodisk Corporation	Aetina Corporation	Manufacturing and sales of industrial graphics cards	75.63	78.65	Note 2
Innodisk Global-M Corporation	Innodisk Shenzhen Corporation	Industrial embedded storage devices	100	100	

Note 1: On June 23, 2020, the Company increased its investment in Innodisk Global-M Corporation, amounting to NT$1,494, and the change registration was completed on June 23, 2020.

Note 2: Aetina Corporation was approved by the shareholder meeting on May 28, 2020 to issue 200,000 shares as a capital increase for employees' remuneration and August 31, 2020 was the capital increase base-date, with the Company's shareholding dropping to 77.54%. In the third quarter of 2020, the Company sold its equity interest in Aetina Corporation, and the Company's shareholding decreased to 75.63%.

3. Subsidiaries not included in the consolidated financial report: none.

4. Adjustments for subsidiaries with different balance sheet dates: none.

5. Significant restrictions: none.

6. Subsidiaries that have non-controlling interests that are material to the Group: none.

(IV) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (hereinafter referred to as the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency.

1. Foreign currency transactions and balances

(1) Foreign currency transactions are translated into the functional currency using spot exchange rate at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(2) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated using spot exchange rate at the balance sheet date. Exchange differences arising from re-translation at the balance sheet date are recognized in profit or loss.

(3) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated using spot exchange rate at the balance sheet date. Their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated using spot exchange at the balance sheet date. Their translation differences are recognized in other comprehensive income. For those which are not measured at fair value, they measured by the historical exchange rate of the initial transaction date.

(4) All foreign exchange gains and losses are presented in the statement of consolidated comprehensive income within "Other gains and losses."

2. Translation of foreign operations

(1) The operating results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

A. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet.

B. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period.

C. All resulting exchange differences are recognized in other comprehensive income.

(2) Goodwill and fair value adjustments arising on acquisition of a foreign entity are regarded as assets and liabilities of the foreign entity, and are translated at the closing rate.

(V) <u>Classification of current and non-current items</u>

1. Assets that meet one of the following criteria are classified as current assets:

(1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.

(2) Assets held mainly for trading purposes.

(3) Assets that are expected to be realized within twelve months from the balance sheet date.

(4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

Those that do not meet the above criteria are considered non-current.

2. Liabilities that meet one of the following criteria are classified as current liabilities:

(1) Liabilities that are expected to be paid off within the normal operating cycle.

(2) Assets held mainly for trading purposes.

(3) Liabilities that are to be paid off within twelve months from the balance sheet date.

(4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Those that do not meet the above criteria are considered non-current.

(VI) <u>Cash equivalents</u>

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(VII) <u>Financial assets measured at amortized cost</u>

1. Refer to those that meet the following criteria at the same time:

(1) The objective of the business model is achieved by collecting contractual cash flows.

(2) The assets’ contractual cash flows solely represent payments of principal and interest.

2. On a regular way purchase or sale basis, financial assets measured at amortized cost are recognized and de-recognized using trade date accounting.

3. The Group measures financial assets at fair value plus transaction costs in the initial

recognition. The financial assets are subsequently amortized by the effective interest rate during the circulation to recognize interest income and impairment loss. The profits or losses are recognized in the profit and loss when the assets are derecognized.

4. The Group holds time deposits that are not considered cash equivalents. Due to the short holding period, the impact of discounting is insignificant and is measured by the amount of investment.

(VIII) Accounts and notes receivable

1. Refers to accounts and notes that have been unconditionally charged for the right to exchange the value of the consideration due to the transfer of goods or services.

2. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(IX) Impairment of financial assets

Regarding the financial assets measured at amortized cost, the Group considers all reasonable and supportable information (including forward-looking ones) and measure the loss allowance based on the 12-month expected credit losses for those that do not have their credit risk increased significantly since initial recognition. For those that have increased significantly since initial recognition, the loss allowance is measured based on the full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is also required for trade receivables that do not constitute a financing transaction.

(X) De-recognition of financial assets

A financial asset is de-recognized when the Group's rights to receive cash flows from the financial assets have expired.

(XI) Leasing arrangements (lessor) -- operating leases

Lease income from operating leases, less any incentives given to the lessee, is amortized in current profit or loss on a straight-line basis over the lease term.

(XII) Inventories

Inventories are measured at the lower of cost or net realizable value, and the cost is determined by weighted-average method. The cost of finished goods and work-in-progress comprises raw materials, direct labor, other direct costs and related production overheads, but excludes borrowing costs. At the end of year, inventories are evaluated at the lower of cost or net realizable value. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable costs of completion and selling expenses.

(XIII) Investments accounted for under equity method -- Associates

1. Associates refer to entities over which the Group has significant influence but is not in control. In general, the associates may have more than 20% of their voting shares directly or indirectly owned by the Group. The Group accounts for its investment in associates using the equity method, and the investment is initially recognized at cost.
2. The Group recognizes the profit and loss upon the acquisition of associates as the current profit and loss. Other comprehensive profit and loss after the acquisition are recognized as the other comprehensive profit and loss. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group will not recognize further losses, unless it has incurred legal or constructive obligations or make payments on behalf of the associate.
3. If an associate has changes in equity not from profit or loss or other comprehensive income, and such changes do not affect the Group's shareholding in the associate, the Group will recognize all changes in equity as “capital surplus” according to the shareholding percentage.
4. Unrealized gains on transactions between the Group and associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
5. In the event that an associate issues new shares and the Group does not subscribe to or acquire the new shares in proportion, which results in a change to the Group's shareholding percentage but the Group maintains a significant influence on the associate, the increase or decrease of the Group's share of equity interest is the adjustment of “capital surplus” and “investments accounted for under the equity method.” If the investment percentage is reduced, in addition to the above adjustments, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionally on the same basis as would be required if the relevant assets or liabilities were disposed of.

(XIV) Property, plant and equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

3. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

4. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from the previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors,” from the date of the change.

   The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	2 to 8 years
Office equipment	2 to 6 years
Others	2 to 6 years

(XV) Leasing agreements (lessee) - right-of-use assets/lease liabilities

1. Leases are recognized as right-of-use assets and lease liabilities at the date at which the leased assets are available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as expenses on a straight-line basis over the lease term.

2. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments include fixed payments, less any lease incentives receivables.

   The Company subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is re-measured and the amount of re-measurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

3. At the commencement date, the right-of-use asset is recognized at cost comprising the amount of initial measurement of lease liability.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's service life or the end of lease term. When the lease liability is re-measured, the amount of re-measurement is recognized as an adjustment to the right-of-use asset.

4. For lease modifications that reduce the scope of the lease, the lessee reduces the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognizes the difference between this amount and the remeasurement amount of the lease liability in profit or loss.

(XVI) Investment property

Investment properties are initially measured at cost and may be subsequently measured using a cost model. Except for land, the service life is recognized on a straight-line basis of depreciation and is about 24 to 32 years.

(XVII) Intangible assets

1. Computer software

Recognized by the acquisition cost and is amortized on a straight-line basis with an estimated service life of 1 to 8 years.

2. Goodwill

Goodwill is measured in a business combination using the acquisition method.

(XVIII) Impairment of non-financial assets

1. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less disposal cost or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed.The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

2. Goodwill regularly estimates its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The goodwill impairment loss will not be reversed in subsequent years.

3. Goodwill is allocated to cash-generating units for the purpose of conducting the

impairment testing. The allocation identified based on the operating segment, and the goodwill is allocated to cash-generation units or groups of cash-generation units expected to benefit from the business combination that generates goodwill.

(XIX) Borrowings

Refers to long-term funds borrowed from banks. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(XX) Accounts and notes payable

1. Refers to debts incurred as a result of the purchase of raw materials, goods or services and the notes payable due to business and non-business purposes.
2. The short-term accounts and notes payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(XXI) De-recognition of financial liabilities

The Group derecognizes financial liabilities when the obligations specified in the contract are fulfilled, cancelled or expired.

(XXII) Financial assets and liabilities are offset against each other

Financial assets and financial liabilities are offset and presented in the balance sheet on a net basis when there is a legally enforceable right to offset the amount of the recognized financial assets and liabilities and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(XXIII) Provision

Liability reserve (which is for warranty) is a present statutory or deferred obligation as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

(XXIV) Employee benefits

1. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

2. Pension

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Pre-paid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

3. Employees' bonuses and directors' and supervisors' remuneration

Employees' bonuses and directors' and supervisors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any differences between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(XXV) Share-based payment to employees

The share-based payment agreement for delivery of equity is a transaction in which employees' labor service is received as consideration for the Company's equity instrument at fair value. It is recognized as compensation costs during the vesting period and the equity is adjusted accordingly. The equity instrument's fair value shall reflect the effects of vesting and non-vesting conditions of market value. The recognized remuneration costs are adjusted in accordance with the expected service conditions to be met and the non-vesting market value conditions, until the final recognized amount is recognized with the vesting amount on the vesting date.

(XXVI) Income tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the

stockholders resolve to retain the earnings.

3. Deferred income tax is recognized, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
4. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
5. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities. They are levied by the same taxation authority on either the same entities or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXVII) Share capital

Common stocks are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(XXVIII) Dividend distribution

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities. Stock dividends are recorded as dividends to be distributed and transferred to be common stocks on the base date of issuance of new shares.

(XXIX) Revenue recognition

1. Our Group develops, manufactures and sells various products related to industrial storage devices and memory modules. Sales revenue is recognized when the control

of products is transferred to customers. That is, once products are delivered to customers, the customers have discretion on the channel and price of product sales, and the Group has no outstanding performance obligations that may affect customers' acceptance of the products. The delivery of products occurs when products are shipped to a designated location and the risk of obsolescence and loss has been transferred to customers, and the customers accept the products in accordance with the sales contract or have objective evidence that all criteria have been met.

2. The payment terms of sales transactions are usually payment in advance or net 30 to 90. With respect to the contracts signed between the Group and customers, the time interval between the transfer products or services promised to customers and the customers' payment has not exceeded one year, so the Group has not adjusted the transaction price to reflect the time value of money.

3. Sales revenue is recognized as the net from subtracting sales discounts from the contract price. The Group estimates possible sales discounts based on past experience and different contract conditions, and recognizes the refund liabilities accordingly.

4. The Group provides warranty for products sold, and has the obligation to repair product defects, which are recognized as liability provisions when goods are sold.

5. Accounts receivable are recognized when goods are delivered to customers. The Group has unconditional rights to the contract price, and will be able to collect the amount from the customers after the time has passed.

(XXX) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the enterprise will comply with the conditions attached to the government grant and that the grant will be received. If the nature of government subsidies is to compensate the Group for expenses incurred, the government subsidies are recognized in profit or loss on a systematic basis in the period in which the related expenses are incurred.

(XXXI) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

V. Critical accounting judgments and key sources of estimation and uncertainty

The preparation of these consolidated financial statements requires the management to make critical judgments in applying the Group’s accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Please refer to the following explanation of critical accounting judgments and key sources of estimation and uncertainty:

(I) Important judgments adopted by the accounting policies

The accounting policies adopted by the Group have been assessed and have shown no significant uncertainties.

(II) Critical accounting estimates and assumptions

Inventory Evaluation

During the inventory valuation, the Group needs to use judgment to evaluate the wear and tear, obsolescence and market sales value of the inventory to estimate the net realizable value, and write down the inventory cost to the net realizable value. Technological changes, environmental changes and sales conditions will change the inventory value, further affecting its valuation.

As of December 31, 2020, the book value of the Group's inventory was NT$791,673.

VI. Statements of main accounting items

(I) Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash:		
Cash on hand and revolving funds	$ 919	$ 725
Checking accounts and demand deposits	1,605,785	1,053,409
Cash equivalents:		
Time deposits	653,500	850,494
	$ 2,260,204	$ 1,904,628

1. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
2. For the status on the Group providing pledged collaterals with cash and cash equivalents which have been reclassifiedto other non-current assets, please refer to the details in Note 8.

(II) Financial assets measured at amortized cost

	December 31, 2020	December 31, 2019
Current items:		
Time deposits with a maturity of more than three months	$ 400,000	$ 150,000

1. Financial assets at amortized cost is recognized in the profit and loss shown as follows:

	2020	2019
Interest income	$ 1,988	$ 803

2. The Group has not provided financial assets at amortized cost as a pledged collateral.

(III) Notes and accounts receivable

	December 31, 2020	December 31, 2019
Notes receivable	$ 258	$ 1,366
Less: Loss allowance	-	-
	$ 258	$ 1,366
Accounts receivable	$ 880,988	$ 964,607
Account receivable - Related parties	72	76
	881,060	964,683
Less: Loss allowance	(1,206)	(569)
	$ 879,854	$ 964,114

1. For the aging analysis and the related credit risk information on notes and accounts receivable, please refer to Note 12 (2).
2. As of December 31, 2020 and 2019, notes receivable and accounts receivable were from contracts with customers. The balance of notes and accounts receivable as of January 1, 2019 was NT$1,019,349.
3. The Group does not hold any collateral for the aforementioned notes and accounts receivable.

(IV) Inventories

	December 31, 2020		
	Cost	Allowance for Valuation loss	Book value
Raw materials	$ 525,617	($ 72,296)	$ 453,321
Work in process	143,562	(6,790)	136,772
Finished goods	179,745	(8,176)	171,569
Merchandises	34,157	(4,146)	30,011
	$ 883,081	($ 91,408)	$ 791,673

	December 31, 2019		
	Cost	Allowance for Valuation loss	Book value
Raw materials	$ 433,553	($ 57,880)	$ 375,673
Work in process	186,879	(7,457)	179,422
Finished goods	204,213	(12,778)	191,435
Merchandises	30,830	(4,294)	26,536
	$ 855,475	($ 82,409)	$ 773,066

1. None of the above inventories are provided with pledged collaterals.

2. The cost of inventories recognized as losses by the Group.

	2020	2019
Cost of goods sold	$ 4,968,830	$ 5,060,823
(Reversal gain of) loss on decline in market value of inventories	8,999	(65,892)
Loss on scrapping of inventory	10,707	12,441
Others	29,752	36,517
	$ 5,018,288	$ 5,043,889

The Group recorded a reversal gain due to a decrease in the allowance for inventory write-down as a result of the disposal of the inventories that had been charged with a decline in market value or were slow-moving.

(V) Investments accounted for under the equity method

	December 31, 2020		December 31, 2019	
	Amount	Ownership	Amount	Ownership
Affiliates:				
AccelStor Inc.	$ -	40.37%	$ -	40.37%
Millitronic Co.,Ltd.	18,232	33.55%	6,651	31.96%
Antzer Tech Co.,Ltd.	4,751	31.89%	9,862	31.89%
Sysinno Technology Inc.	10,140	43.00%	12,443	43.00%
	$ 33,123		$ 28,956	

For the years ended December 31, 2020 and 2019, the Group's share of (losses) profits from affiliates recognized under the equity method was NT$(13,253) and NT$(57,873), respectively, based on the financial statements audited by the Company's independent accountants.

1. AccelStorInc.

As of December 31, 2020, the Group adopted the equity method to recognize the losses of AccelStor Inc. to reduce the balance of book value to zero.

2. Millitronic Co.,Ltd.

The Group subscribed to Millitronic Co.,Ltd.'s cash capital increase of NT$19,000 in the 3rd quarter of 2020, but not in proportion to shareholding percentage, resulting in a change in the shareholding percentage from 31.96% to 33.55%, and the change in equity interest decreased the “retained earnings” and “investments accounted for using the equity method” by $1,580.

3. Sysinno Technology Inc.

In 2019 Q4, the Group added an additional investment of $12,900 in Sysinno Technology Inc. to reach a shareholdings percentage of 43%.

4. As of December 31, 2020 and 2019, the Group had no significant affiliates, and the aggregate book values of separate non-significant affiliates were $33,123 and $28,956, respectively. Their operating results are summarized as follows:

	2020	2019
Net loss from continuing operations	($ 13,253)	($ 57,873)
Other comprehensive income or loss (net)	-	380
Total comprehensive profit and loss for the year	($ 13,253)	($ 57,493)

5. None of the affiliates have open market quotes, so there is no information on fair value.

(VI) Property, plant and equipment

	2020					
	Land	Buildings and structures	Machinery and equipment	Office equipment	Others	Total
January 1						
Cost	$ 521,007	$ 763,876	$ 216,662	$ 32,177	$ 56,332	$ 1,590,054
Accumulated depreciation and impairments	-	(61,987)	(102,111)	(13,824)	(38,141)	(216,063)
	$ 521,007	$ 701,889	$ 114,551	$ 18,353	$ 18,191	$ 1,373,991
January 1	$ 521,007	$ 701,889	$ 114,551	$ 18,353	$ 18,191	$ 1,373,991
Additions	-	1,000	10,930	2,173	7,650	21,753
Reclassification	7,773	42,993	381	-	-	51,147
Disposal	-	-	(2)	(55)	-	(57)
Depreciation expense	-	(26,082)	(31,109)	(5,786)	(6,888)	(69,865)
Net exchange differences	(492)	(1,484)	2	5	(6)	(1,975)
December 31	$ 528,288	$ 718,316	$ 94,753	$ 14,690	$ 18,947	$ 1,374,994
December 31						
Cost	$ 528,288	$ 820,165	$ 227,965	$ 33,827	$ 63,622	$ 1,673,867
Accumulated depreciation and impairments	-	(101,849)	(133,212)	(19,137)	(44,675)	(298,873)
	$ 528,288	$ 718,316	$ 94,753	$ 14,690	$ 18,947	$ 1,374,994

	2019						
	Land	Buildings and structures	Machinery and equipment	Office equipment	Unfinished construction and equipment under acceptance	Others	Total
January 1							
Cost	$ 517,146	$ 745,481	$ 185,266	$ 18,271	$ 35,833	$ 48,510	$ 1,550,507
Accumulated depreciation and impairments	-	(48,128)	(78,291)	(12,205)	-	(32,079)	(170,703)
	$ 517,146	$ 697,353	$ 106,975	$ 6,066	$ 35,833	$ 16,431	$ 1,379,804
January 1	$ 517,146	$ 697,353	$ 106,975	$ 6,066	$ 35,833	$ 16,431	$ 1,379,804
Additions	-	6,187	34,051	14,688	-	8,718	63,644
Reclassification	4, 199	16,835	25	(129)	(34,213)	15	(13,268)
Disposal	-	(393)	(10)	(2)	-	-	(405)
Depreciation expense	-	(17,027)	(26,489)	(2,248)	-	(6,966)	(52,730)
Net exchange differences	(338)	(1,066)	(1)	(22)	(1,620)	(7)	(3,054)
December 31	$ 521,007	$ 701,889	$ 114,551	$ 18,353	$ -	$ 18,191	$ 1,373,991
December 31							
Cost	$ 521,007	$ 763,876	$ 216,662	$ 32,177	$ -	$ 56,332	$ 1,590,054
Accumulated depreciation and impairments	-	(61,987)	(102,111)	(13,824)	-	(38,141)	(216,063)
	$ 521,007	$ 701,889	$ 114,551	$ 18,353	$ -	$ 18,191	$ 1,373,991

1. As of December 31, 2020 and 2019, the Group had not provided property, plant and equipment as pledged collaterals.
2. The Group had no capitalization of interest for property, plant and equipment in 2020 and 2019.
3. The abovementioned property, plant and equipment are all held and used by the Group.

(VII) Leasing arrangements - lessee

1. The underlying assets leased by the Group include land, buildings and company vehicles. Leasing contracts for buildings and company vehicles are typically made for periods of 1 to 4 years. The land for the plant site in Taiwan is leased from Hsinchu Science Park, and the lease period is 50 years. Lease contracts are negotiated separately and include a variety of terms and conditions. There are no restrictions for the leased assets, except that they cannot be used as loan collaterals.

2. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	Land	Buildings	Company vehicles	Total
January 1, 2020	$ 102,914	$ 26,834	$ 3,035	$ 132,783
Additions	86,431	17,162	2,420	106,013
Early termination of leases	-	(1,266)	-	(1,266)
Depreciation expense	(3,959)	(17,693)	(2,650)	(24,302)
Impact from exchange rate	-	117	11	128
December 31, 2020	$ 185,386	$ 25,154	$ 2,816	$ 213,356

	Land	Buildings	Company vehicles	Total
January 1, 2019	$ 105,036	$ 35,890	$ 5,005	$ 145,931
Additions	-	9,978	763	10,741
Early termination of leases	-	(1,270)	(8)	(1,278)
Depreciation expense	(2,122)	(17,145)	(2,590)	(21,857)
Impact from exchange rate	-	(619)	(135)	(754)
December 31, 2019	$ 102,914	$ 26,834	$ 3,035	$ 132,783

3. The information on profit and loss items related to lease contracts is as follows:

Items affecting current profit and loss	2020	2019
Interest expenses on lease liabilities	$ 2,005	$ 1,686
Lease modification losses (gains)	(3)	(4)

4. In addition to the cash outflow for lease related expenses mentioned in Note 6(7)3. above, the Group had cash outflows of NT$23,390 and NT$22,064 for the years ended December 31, 2020 and 2019, respectively, due to principal repayment of lease liabilities.

5. Options to extend or terminate leases

   In determining lease terms, the Group takes into consideration all facts and circumstances that create economic incentives to exercise an option to extend or terminate leases. The assessment of lease period is reviewed if a significant event occurs which affects the assessment of options to extend or options not to terminate.

(VIII) Leasing arrangements - lessor

1. The Group leases out assets such as land and buildings. The lease contracts are typically made for periods of 1 to 5 years. The terms of lease contracts are negotiated separately. In order to preserve the condition of leased assets, the Group usually requires lessees not to sublet, sublease or pledge all or part of the underlying leased assets.

2. The gain recognized by the Group based on the operating lease contracts are as follows:

	2020	2019
Rental income (including rental income from investment property)	$ 6,856	$ 5,744

3. The maturity analysis of the lease payments under the operating leases is as follows:

	December 31, 2020	December 31, 2019
2020	$ -	$ 5,955
2021	5,096	5,098
2022	1,104	1,041
2023	552	521
	$ 6,752	$ 12,615

(IX) Investment property

	2020		
	Land	Buildings and structures	Total
January 1			
Cost	$ 81,860	$ 43,990	$ 125,850
Accumulated depreciation and impairments	-	(9,924)	(9,924)
	$ 81,860	$ 34,066	$ 115,926
January 1	$ 81,860	$ 34,066	$ 115,926
Reclassification	(7,773)	(5,069)	(12,842)
Depreciation expense	-	(1,449)	(1,449)
Net exchange differences	250	331	581
December 31	$ 74,337	$ 27,879	$ 102,216
December 31			
Cost	$ 74,337	$ 38,244	$ 112,581
Accumulated depreciation and impairments	-	(10,365)	(10,365)
	$ 74,337	$ 27,879	$ 102,216

	2019		
	Land	Buildings and structures	Total
<u>January 1</u>			
Cost	$ 75,982	$ 35,573	$ 111,555
Accumulated depreciation and impairments	-	(8,292)	(8,292)
	$ 75,982	$ 27,281	$ 103,263
January 1	$ 75,982	$ 27,281	$ 103,263
Additions	-	1,114	1,114
Reclassification	5,878	7,302	13,180
Depreciation expense	-	(1,642)	(1,642)
Net exchange differences	-	11	11
December 31	$ 81,860	$ 34,066	$ 115,926
<u>December 31</u>			
Cost	$ 81,860	$ 43,990	$ 125,850
Accumulated depreciation and impairments	-	(9,924)	(9,924)
	$ 81,860	$ 34,066	$ 115,926

1. Rental income and direct operating expenses of investment real estate:

	2020	2019
Rental income from investment property	$ 5,793	$ 5,084
Direct operating expenses incurred by investment property that generates rental income for the period	$ 2,425	$ 2,655

2. The fair value of the investment property held by the Group as of December 31, 2020 and 2019 were $137,028 and $151,187, respectively. The abovementioned fair value is obtained from the market price assessment and actual transaction price of similar properties in the vicinity of the relevant assets, and the fair value is for Level 2 assets.

3. As of December 31, 2020 and 2019, the Group had not provided investment property as pledged collaterals.

4. The Group had no capitalization of interest for investment property in 2020 and 2019.

Intangible assets

	2020			
	Patent	Computer software	Goodwill	Total
<u>January 1</u>				
Cost	$ -	$ 39,871	$ 12,205	$ 52,076
Accumulated amortization and impairments	-	(27,709)	-	(27,709)
	$ -	$ 12,162	$ 12,205	$ 24,367
January 1	$ -	$ 12,162	$ 12,205	$ 24,367
Additions-acquired separately	-	13,342	-	13,342
Disposal	(23,810)	-	-	(23,810)
Reclassifications	23,810	-	-	23,810
Amortization expense	-	(8,248)	-	(8,248)
Net exchange differences	-	-	(534)	(534)
December 31	$ -	$ 17,256	$ 11,671	$ 28,927
<u>December 31</u>				
Cost	$ -	$ 53,213	$ 11,671	$ 64,884
Accumulated amortization and impairments	-	(35,957)	-	(35,957)
	$ -	$ 17,256	$ 11,671	$ 28,927

	2019			
	Patent	Computer software	Goodwill	Total
<u>January 1</u>				
Cost	$ -	$ 34,258	$ 12,474	$ 46,732
Accumulated amortization and impairments	-	(21,665)	-	(21,665)
	$ -	$ 12,593	$ 12,474	$ 25,067
January 1	$ -	$ 12,593	$ 12,474	$ 25,067
Addition s-acquired separately	-	5,613	-	5,613
Amortization expense	-	(6,044)	-	(6,044)
Net exchange differences	-	-	(269)	(269)
December 31	$ -	$ 12,162	$ 12,205	$ 24,367
<u>December 31</u>				
Cost	$ -	$ 39,871	$ 12,205	$ 52,076
Accumulated amortization and impairments	-	(27,709)	-	(27,709)
	$ -	$ 12,162	$ 12,205	$ 24,367

1. Breakdown of intangible assets amortization:

	2020	2019
Operating costs	$ 842	$ 716
Marketing expenses	57	103
General and administrative expenses	4,198	2,896
Research and development expenses	3,151	2,329
	$ 8,248	$ 6,044

2. Goodwill is allocated to cash-generating units:

	December 31, 2020	December 31, 2019
Innodisk USA Corporation	$ 10,141	$ 10,675
Others	1,530	1,530
	$ 11,671	$ 12,205

3. Goodwill is allocated to cash-generating units identified by the Group. The recoverable amount is evaluated based on the value in use which is calculated based on the estimated cash flow before taxes.

   The Group calculated that the recoverable amount exceeds the carrying amount based on the value in use, so there is no impairment of goodwill. The calculation of value in use mainly considers gross margin, growth rate and discount rate.

   The management determines the budgeted gross margin based on past performance and the expectations for market development. The weighted average growth rate used is consistent with the industry's reported forecast. The adopted discount rate is a pre-tax rate and reflects the specific risks of the related operating units.

4. As of December 31, 2020 and 2019, the Group had not provided intangible assets as pledged collaterals.

(X) Other payables

	December 31, 2020	December 31, 2019
Payroll and bonus payable	$ 175,663	$ 165,870
Employees' bonuses and directors' and supervisors' remuneration payable	82,696	90,768
Accrued expenses	47,198	45,902
Payable on equipment	-	11,505
Others	14,040	9,071
	$ 319,597	$ 323,116

(XI) Long-term borrowings

Type of borrowings	Borrowing period and payment method	Range of interest rate	Collateral	December 31, 2020
Installment borrowings				
Innodisk Europe B.V.				
Chinatrust Commercial Bank credit loans	Borrowing period is from December 10, 2018 to December 10, 2023. The principal is amortized annually and the interest is repaid quarterly.	1.15%	No	$ 14,007
Chinatrust Commercial Bank credit loans	Borrowing period is from March 15, 2019 to March 15, 2024. The principal is amortized annually and the interest is repaid quarterly.	1.15%	No	6,304
				20,311
Less: Long-term borrowings (including current portion)				(2,451)
				$ 17,860

Type of borrowings	Borrowing period and payment method	Range of interest rate	Collateral	December 31, 2019
Installment borrowings				
Innodisk Europe B.V.				
Chinatrust Commercial Bank credit loans	Borrowing period is from December 10, 2018 to December 10, 2023. The principal is amortized annually and the interest is repaid quarterly.	1.25%	No	$ 15,115
Chinatrust Commercial Bank credit loans	Borrowing period is from March 15, 2019 to March 15, 2024. The principal is amortized annually and the interest is repaid quarterly.	1.25%	No	6,718
				21,833
Less: Long-term borrowings (including current portion)				(2,351)
				$ 19,482

1. On April 26, 2019, the Company repaid the long-term loan of $100,000 due on December 26, 2023 in accordance with the loan contract.
2. Please refer to Note 6 (23) for the interest expense recognized in profit or loss by the Group.

(XII) Pensions

1. The Company and its domestic subsidiaries have established a defined contribution pension plan under the Labor Pension Act covering all regular employees with domestic citizenship. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
2. The overseas subsidiary Innodisk Global-M Corporation has not established an employee pension plan, and the local laws do not have mandatory requirements. Innodisk USA Corporation, Innodisk Europe B.V. and Innodisk Japan Corporation have adopted a defined contribution pension plan which allocates a certain percentage of the monthly

total salary of local employees as the pensions. The Company has no further obligations except for the monthly allocation.

3. Innodisk Shenzhen Corporation allocates a certain percentage of the monthly total salary of local employees as the pensions in accordance with the pension system stipulated by the government of the People ’s Republic of China. The pension of each employee is coordinated and arranged by the government. Other than the monthly contributions, the Group has no further obligations.

4. For 2020 and 2019, the pension costs recognized by the Group in accordance with the pension measures were $28,187 and $26,352, respectively.

(XIII) Share-based payment

1. For 2020 and 2019, the Company's share-based payment agreements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions	Delivery method
Employee stock options (Note 2)	2019.1.29	3,000 thousand shares	4 years	Note 1	Equity delivery

Note 1: Employees with 2 years of service tenure are entitled to 50%. Those with 3 years of service tenure are entitled to 100%.

Note 2: The board resolution on November 8, 2018 determined the first employee stock option plan of 2018 and established the stock option method. A total of 3,000,000 units of employee stock options was to be issued, and each unit of stock option subscribed to 1 share, and measures became effective on December 11, 2018. The Company has processed the issuance of employee stock options on January 29, 2019.

2. The detailed information of the above share-based payment is as follows:

	2020		2019	
	Number of options (thousand shares)	Weighted average exercise price (NT$)	Number of options (thousand shares)	Weighted average exercise price (NT)
Options outstanding as of January 1	3,000	92.80	-	-
Share options granted this period	-	-	3,000	98.70
Addition of stock dividends or adjustment of number of shares subscribed	-	-	-	-
Share options foregone this period	-	-	-	-
Share options exercised this period	-	-	-	-
Share options expired this period	-	-	-	-
Options outstanding as of December 31	3,000	92.80	3,000	98.70
Options exercisable as of December 31	-		-	

3. The expiration date and exercise price of stock options outstanding at the balance sheet date are as follows:

		December 31, 2020	
Approved issue date	Expiration date	Number of shares (thousand)	Exercise price (NT$)
January 29, 2019	January 29, 2023	3,000	92.80

		December 31, 2019	
Approved issue date	Expiration date	Number of shares (thousand)	Exercise price (NT$)
January 29, 2019	January 29, 2023	3,000	98.70

4. The fair value of stock options granted on grant date is measured using Black-Scholes option-pricing model and the relevant information is as follows:

Type of arrangement	Grant date	Stock price (NT$)	Exercise price (NT$)	Expected volatility	Expected duration	Expected dividend	Risk-free rate	Weighted average fair value per unit (NT$)
Employee stock options	2019.1.29	105.50	105.50	34.34%	4 years	NA	0.61%	26.4442

5. Expenses incurred on share-based payment transactions are shown below:

	2020	2019
Equity delivery	$ 22,864	$ 21,081

(XIV) Provision

	2020	2019
Balance on January 1	$ 59,094	$ 45,010
Provisions used for the period	(18,692)	(13,126)
Provision added this period	21,042	27,210
Balance on December 31	$ 61,444	$ 59,094

The analysis of provisions is as follows:

	December 31, 2020	December 31, 2019
Current	$ 61,444	$ 59,094

The Company's provisions for warranty liabilities are mainly related to sales of industrial storage devices and memory modules. The provisions for warranty liabilities are estimated based on the historical warranty information of the products.

(XV) Share capital

1. As of December 31, 2020, the Company's authorized capital was $1,000,000, consisting of 100,000 thousand shares (including 10,000 thousand shares which can be subscribed to as employee stock options). The paid-in capital was $813,240 with a par value of NT$10. All proceeds from shares issued have been collected. The movements in the number of the Company's common stocks outstanding are as follows: (Unit: Share)

	2020	2019
January 1	79,729,451	78,166,129
Stock dividends	1,594,589	1,563,322
December 31	81,324,040	79,729,451

2. The shareholder meeting resolved that the 2019 unappropriated earnings of $15,946 would be capitalized to issue new shares on May 29, 2020. The base date for capitalization was August 29, 2020.

3. The shareholders' meeting resolved that the 2018 undistributed profits of $15,633 would be capitalized to issue new shares on June 6, 2019. The base date for capitalization was August 30, 2019.

(XVI) Capital surplus

In accordance with the Company Act, any capital surplus arising from paid-in capital in excess of the par value on issuance of common stocks can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the Securities and Exchange Act requires that the amount of capital surplus to be capitalized, as above, should not exceed 10% of paid-in capital each year. Capital surpluses should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2020				
	Total capital surplus, additional paid-in capital	Difference between the price of acquiring or disposing of an equity interest in a subsidiary and its carrying value	Recognition of changes in ownership interest in subsidiaries	Employee stock options	Total
January 1	$ 1,013,516	$ 802	$ 23,282	$ 21,081	$ 1,058,681
Share-based payment	-	-	-	22,864	22,864
Share-based remuneration for employees of subsidiaries	-	-	1,157	-	1,157
December 31	$ 1,013,516	$ 802	$ 24,439	$ 43,945	$ 1,082,702

	2019				
	Total capital surplus, additional paid-in capital	Difference between the price of acquiring or disposing of an equity interest in a subsidiary and its carrying value	Recognition of changes in ownership interest in subsidiaries	Employee stock options	Total
January 1	$ 1,013,516	$ 802	$ 23,012	$ -	$ 1,037,330
Share-based payment	-	-	-	21,081	21,081
Share-based remuneration for employees of subsidiaries	-	-	270	-	270
December 31	$ 1,013,516	$ 802	$ 23,282	$ 21,081	$ 1,058,681

(XVII) Retained earnings / subsequent event

1. According to the Company's Articles of Incorporation, the surplus income after the final accounts is distributed to the following accounts in their respective order:

   (1) Withholding taxes.

   (2) Make up for past losses.

   (3) Allocate 10% as legal reserve. If the legal reserve has reached the total share capital, no further allocations will be conducted. Special reserve is then allocated or reversed in accordance with the law or regulations of the authority.

   (4) With respect to the balance and the accumulated undistributed surplus of the previous year, the board proposes a surplus distribution to the shareholders meeting for resolution.

2. Dividend policy: the Company considers future needs for business operations, long-term financial planning and shareholders' interest in the dividend policy. As the Company is currently in the growing stage, considering the future capital expenditure budget and the need for cash, the annual cash dividends will not be less than 10% of the total of cash and

stock dividends. The Company's surplus distribution and shareholders' equity shall not be less than 30% of the current year's surplus.

3. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purposes. The use of the legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

4. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

5. The Company's distribution of profits

(1) The appropriations of 2019 and 2018 earnings had been resolved at the shareholders' meeting on May 29, 2020 and June 6, 2019, respectively. Details are summarized below:

	2019		2018	
	Amount	Dividends Per Share (NT$)	Amount	Dividends Per Share (NT$)
Legal reserve allocated	$ 101,426		$ 84,308	
Provision (reversal) of special reserve	4,080		(6,193)	
Stock dividends	15,946	0.20	15,633	0.20
cash dividends	597,971	7. 50	468,997	6.00
	$ 719,423		$ 562,745	

(2) The appropriations of 2020 earnings had been resolved by the Board of Directors on February 25, 2021. Details are summarized below:

	2020	
	Amount	Dividends Per Share (NT$)
Legal reserve allocated	$ 93,008	
Allocated special reserve	1,358	
cash dividends	553,003	6.80
	$ 647,369	

(XVIII) Operating revenue

1. Segmentation of revenue from contracts with customers

The Group derives its revenue from the transfer of goods at a point in time in the following product categories and geographical regions:

	Industrial storage devices and memory modules					
2020	Taiwan	Asia	Americas	Europe	Others	Total
Revenue from contracts with customers	$ 2,005,174	$ 2,522,618	$ 1,209,066	$ 1,340,936	$ 74,221	$ 7,152,015

	Industrial storage devices and memory modules					
2019	Taiwan	Asia	Americas	Europe	Others	Total
Revenue from contracts with customers	$ 1,602,606	$ 2,434,474	$ 1,578,169	$ 1,610,905	$ 135,511	$ 7,361,665

2. Contract liabilities

(1) Contract liabilities related to contracts with customers recognized by the Group:

	December 31, 2020	December 31, 2019	January 1, 2019
Contract liabilities - Product sales contracts	$ 41,011	$ 17,986	$ 25,225

(2) Contract liabilities at the beginning of the period recognized as revenue of the period

	2020	2019
Product sales contracts	$ 12,987	$ 24,696

(XIX) Interest income

	2020	2019
Interest on bank deposits	$ 4,542	$ 6,805
Interest income on financial assets at amortized cost	1,988	803
Other interest incomes	9	7
	$ 6,539	$ 7,615

(XX) Other income

	2020	2019
Rental income	$ 6,856	$ 5,744
Others	15,175	8,041
	$ 22,031	$ 13,785

(XXI) Other gains and losses

	2020	2019
Net currency exchange gain (loss)	($ 53,641)	($ 31,083)
Gain (loss) on disposal of property, plant and equipment	(57)	(300)
Gains (losses) on disposal of intangible assets	2,842	-
Depreciation charges on investment property	(1,449)	(1,642)
Others	(416)	(2,472)
	($ 52,721)	($ 35,497)

(XXII) Finance cost

	2020	2019
Interest expense on bank borrowings	$ 288	$ 596
Interest expenses on lease liabilities	2,005	1,686
	$ 2,293	$ 2,282

(XXIII) Expenses by nature

	2020	2019
Employee benefits expense	$ 927,278	$ 887,009
Depreciation charges on property, plant and equipment	$ 69,865	$ 52,730
Depreciation charges on right-of-use assets	$ 24,302	$ 21,857
Amortization charges on the intangible assets and deferred assets.	$ 20,294	$ 28,025

(XXIV) Employee benefits expense

	2020	2019
Payroll expenses	$ 774,616	$ 741,262
Employee stock options	22,864	21,081
Labor and health insurance fees	55,213	52,142
Pension costs	28,187	26,352
Directors' remuneration	14,319	15,622
Other employee benefit expenses	32,079	30,550
	$ 927,278	$ 887,009

1. According to the Company's Articles of Incorporation, the no more than 2% of the net profit before tax is allocated as remunerations for directors and supervisors and no less than 3% of the net profit before tax is allocated as employees' bonuses when distributing profits.
2. For the years ended December 31, 2020 and 2019, the estimated amount of employees' remuneration was $66,270 and $72,268, respectively; the estimated amount of directors' and supervisors' remuneration was $12,000 and $13,000, respectively, and the aforementioned amount was recorded as salary expense.

For the Group's domestic subsidiary Aetina Corporation, the 2020 and 2019 employees' compensations were accrued at $4,000 and $4,750, respectively, and the 2020 and 2019 director and supervisor remunerations were accrued at $426 and $750, respectively. The abovementioned amounts were listed as payroll expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 5.42% and 0.98% of the Company's profit of the current year distributable for the year ended December 31, 2020, respectively.

As for the Group's domestic subsidiary Aetina Corporation, the employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 7.50% and 0.80% of the profit of the current year distributable for the year ended December 31, 2020, respectively.

The remuneration to employees and remuneration to directors and supervisors for 2019 were NT$72,268 and NT$13,000, respectively, as approved by the Board of Directors, which were consistent with the amounts recognized in the 2019 financial statements and had been paid in cash as of December 31, 2020.

Aetina Corporation, the Group's domestic consolidated subsidiary, has paid NT$4,750 and NT$750 in stock and cash, respectively, to employees, directors and supervisors for the year ended December 31, 2020, as approved by the board of directors, consistent with the amount recognized in the financial statements for the year ended December 31, 2019.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(XXV) Income tax

1. Income tax expense

(1) Components of income tax expense:

		2020		2019
Current tax:				
Income taxes arising from incomes for the current period	$	114,061	$	160,900
Income tax receivable of prior periods		3,164		2,170
Prior year income tax overestimate	(	21,587)	(	10,269)
Withholding and provisional tax		138,388		120,395
Additional tax on undistributed earnings	(	14,915)	(	14,075)
Total current tax		219,111		259,121
Deferred income tax:				
Origination and reversal of temporary differences	(	2,920)		12,093
Others:				
Additional tax on undistributed earnings		14,915		14,075
Impact from exchange rate	(	4,043)		147
Income tax expense	$	227,063	$	285,436

(2) For the year ended 2020 and 2019, the Group had no income tax related to other comprehensive income and direct debits or credits.

2. Reconciliation between income tax expense and accounting profit

		2020		2019
Tax calculated based on profit before tax and statutory tax rate (Note)	$	244,682	$	279,488
Income tax effect of investment tax credits	(	8,000)		-
Unrealized investment loss on domestic operations	(	3,379)		252
Prior year income tax overestimate	(	21,587)	(	10,269)
Additional tax on undistributed earnings		14,915		14,075
Others		432		1,890
Income tax expense	$	227,063	$	285,436

Note: The basis for applicable tax rate is calculated at the rate applicable to the Company in the country where it is located at.

3. Amounts of deferred tax assets or liabilities as a result of temporary differences are as

follows:

	2020		
	January 1	Recognized in profit or loss	December 31
Deferred income tax assets:			
Loss on inventory	$ 15,686	$ 1,931	$ 17,617
Deferred unrealized gross profit on sales to subsidiaries	4,032	(283)	3,749
Provisions for after-sales services	11,819	470	12,289
Attendance bonuses	1,477	621	2,098
Fiscal difference in lease accounting	115	(115)	-
Unrealized investment loss on foreign operations	4,933	(2,055)	2,878
Unrealized exchange loss	2,725	(1,501)	1,224
Taxable losses	-	3,852	3,852
Subtotal	$ 40,787	$ 2,920	$ 43,707

	2019		
	January 1	Recognized in profit or loss	December 31
Deferred income tax assets:			
Loss on inventory	$ 28,242	($ 12,556)	$ 15,686
Deferred unrealized gross profit on sales to subsidiaries	5,604	(1,572)	4,032
Provisions for after-sales services	9,002	2,817	11,819
Attendance bonuses	1,259	218	1,477
Fiscal difference in lease accounting	-	115	115
Unrealized investment loss on foreign operations	8,671	(3,738)	4,933
Unrealized exchange loss	102	2,623	2,725
Subtotal	$ 52,880	($ 12,093)	$ 40,787

4. The Company’s income tax returns through 2018 have been assessed and approved by the tax authority.

As for the consolidated subsidiary Aetina Corporation, the income tax returns through 2018 also have been assessed and approved by the Tax Authority.

(XXVI) Earnings per share

	2020		
	Amount after tax	Weighted average share outstanding (thousand shares)	Earnings per share (NT$)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 931,663	81,324	11.46
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 931,663		
Assumed conversion of all dilutive potential ordinary shares			
- Employee compensation	-	450	
- Employee stock options	-	1,371	
Profit attributable to ordinary shareholders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 931,663	83,145	11.21

	2019		
	Amount after tax	Weighted average share outstanding (thousand shares)	Earnings per share (NT$)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 1,014,254	81,324	12.47
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 1,014,254		
Assumed conversion of all dilutive potential ordinary shares			
- Employee compensation	-	517	
- Employee stock options	-	681	
Profit attributable to ordinary shareholders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 1,014,254	82,522	12.29

The abovementioned weighted average shares outstanding have been retrospectively adjusted to the number of shares of the Company's stock dividends in 2019.

(XXVII) Transactions with non-controlling interests

Disposal of additional equity interests in a subsidiary (without loss of control)

On September 25, 2020, the Group received $3,493 in cash for the disposal of 270,000 shares of Aetina Corporation. The effect of the change in equity of Aetina Corporation from January 1 to December 31, 2020 on the equity attributable to shareholders of the parent company is as follows:

	January 1 to December 31, 2020	
Consideration for disposal of non-controlling interests	$	3,493
Increase in book value of non-controlling interests	(	3,493)
Capital surplus - the difference between actual disposal price and the book value of equity in the subsidiary	$	-

(XXVIII) Supplemental cash flow information

1. Investing activities with partial cash payments:

	2020		2019	
Purchase of property, plant and equipment	$	21,753	$	63,644
Add: Opening balance of payable on equipment		11,505		25,600
Less: Ending balance of payable on equipment		-	(	11,505)
Cash paid during the year	$	33,258	$	77,739

2. Financing activities with no cash flow effects:

	2020		2019	
Stock dividends	$	15,946	$	15,633

(XXIX) Changes in liabilities from financing activities

	2020			
	Other payables - Cash dividends payable	Long-term borrowings (including current portion)	Lease liabilities (Current/ Non-current)	Guarantee deposit received
January 1	$ -	$ 21,833	$ 133,525	$ 1,339
Repayment of borrowings	-	(2,360)	-	-
Declared cash dividends	597,971	-	-	-
Cash dividends paid	(597,971)	-	-	-
Repayment of principal of lease liabilities	-	-	(23,390)	-
Other non-cash transactions	-	-	104,744	-
Increase in guarantee deposit received	-	-	-	601
Decrease in guarantee deposit	-	-	-	(709)
Effects of changes in foreign exchange rates	-	838	-	12
December 31	$ -	$ 20,311	$ 214,879	$ 1,243

	2019			
	Other payables - Cash dividends payable	Long-term borrowings (including current portion)	Lease liabilities (Current/ Non-current)	Guarantee deposit received
January 1	$ -	$ 117,590	$ 145,931	$ 1,164
Increase in borrowings	-	6,718	-	-
Repayment of borrowings	-	(101,680)	-	-
Declared cash dividends	468,997	-	-	-
Cash dividends paid	(468,997)	-	-	-
Repayment of principal of lease liabilities	-	-	(22,064)	-
Other non-cash transactions	-	-	9,658	-
Increase in guarantee deposit received	-	-	-	175
Effects of changes in foreign exchange rates	-	(795)	-	-
December 31	$ -	$ 21,833	$ 133,525	$ 1,339

VII. Related-Party Transactions

(I) Related parties' names and relationships

Name of the related parties	Relationship with the Group
Affiliates:	
Millitronic Co.,Ltd.	An entity over which the Group has significant influence
Antzer Tech Co.,Ltd.	An entity over which the Group has significant influence

Sysinno Technology Inc.	An entity over which the Group has significant influence
AccelStor Inc.	An entity over which the Group has significant influence
AccelStor Ltd.	An entity over which the Group has significant influence
AccelStor Solutions, Inc.	An entity over which the Group has significant influence
Other related party:	
I-MEDIA TECH CO., LTD.	The chairman of that company and one of the Company's directors are the same person.
Innodisk Foundation	The amount donated by the Company and the directors is more than one-third of the total fund received by the foundation.
Key management of Aetina Corporation	Subsidiary's key management and governance units
All directors, the general manager and key executives.	The Group's key executives and governance units

(II) Significant transactions with the related parties

1. Sales of goods

(1) Operating revenue

The Group's revenue from sales of goods and services to the related parties is shown as follows:

	2020	2019
An entity over which the Group has significant influence	$ 406	$ 363

The prices of products sold and services provided to the related parties from the Group are based on the agreements between the parties. The payment terms are net 25 to net 35. There are no significant differences with the non-related parties. The payment terms for non-related parties are payment in advance and net 30 to 90 days.

(2) Accounts receivable

The Group's accounts receivable from the above transactions with related parties is shown as follows:

	2020	2019
An entity over which the Group has significant influence	$ 72	$ 76

2. Purchase transaction

Operating costs

Details on the Group's purchase transactions with related parties are as follows:

	2020	2019
Other related party	$ 101	$ 5,894

The prices of purchase transactions with related parties are based on the agreements between the parties. The payment terms are payment in advance and net 90. There are no significant differences with the non-related parties. The payment terms for non-related parties are payment in advance, 7 days after shipment and net 30 to 90 days.

3. Donations / operating expenses

The operating expenses arising from supporting education development, fulfilling corporate social responsibility and donations to related parties are detailed as follows:

	2020	2019
Innodisk Foundation	$ 4,000	$ 4,000

4. Leases and services

(1) Other income

The Group's income from leasing assets to related parties and providing administrative support and other services is detailed as follows:

	2020		2019	
	Rental income	Other income	Rental income	Other income
An entity over which the Group has significant influence:				
AccelStor Ltd.	$ -	$ -	$ 1,566	$ 60
Others	544	2,065	136	789
	$ 544	$ 2,065	$ 1,702	$ 849

The Group's rental income from leasing out offices is negotiated with the related parties and is collected on a monthly basis.

(2) Other receivables

The Group's other accounts receivable from the above transactions with related parties is shown as follows:

	December 31, 2020	December 31, 2019
An entity over which the Group has significant influence	$ 273	$ 162

(3) Other non-current liabilities

The Group's deposits received from the above transactions with related parties are shown as follows:

	December 31, 2020	December 31, 2019
An entity over which the Group has significant influence	$ 95	$ 95

5. Prepayments/Intangible assets

The Group's prepayments for the purchases of equipment and intangible assets from related parties are shown as follows:

	December 31, 2020	December 31, 2019
An entity over which the Group has significant influence, AccelStor Ltd.	$ -	$ 23,810

The prepayment for the purchase of intangible assets of NT$23,810 as of December 31, 2019 was transferred to intangible assets upon completing the change registration in the second quarter of 2020.

6. Transactions of sale of subsidiaries

In the third quarter of 2020, the Group sold the shares of Aetina Corporation to the key management of the entity, as described in Note 6(28).

7. Property transactions

(1) Acquisition of property, plant and equipment

	2020	2019
An entity over which the Group has significant influence, Accelstor Ltd.	$ -	$ 12,508

(2) Acquisition of financial assets

Assets acquired	Accounts	Number of shares traded	Subject of transaction	2020 Price of acquisition
Millitronic Co.,Ltd.	Investments accounted for under the equity method	1,900,000	Common stock	$ 19,000

Assets acquired	Accounts	Number of shares traded	Subject of transaction	2019 Price of acquisition
Sysinno Technology Inc.	Investments accounted for under the equity method	645,000	Common stock	$ 12,900

(III) Compensation of key management personnel

	2020	2019
Short-term employee benefits	$ 64,409	$ 62,285
Post-employment benefits	422	430
Share-based payment	4,382	4,041
	$ 69,213	$ 66,756

VIII. Pledged assets

Assets pledged by the Group as collateral are as follows:

Assets	Book value December 31, 2020	Book value December 31, 2019	Purpose
Other non-current assets - pledge of time deposits	$ 7,706	$ 2,756	Provide pledge time deposits as lease deposits

IX. Significant contingent liabilities and unrecognised contract commitments

(I) Contingencies

Not applicable.

(II) Commitments

Please refer to Note 13, Table 1, for details of the bank endorsement and guarantee provided by the Company for its subsidiaries.

X. Losses due to major disasters

Not applicable.

XI. Significant events after the balance sheet date

The appropriations of 2020 earnings had been resolved by the Board of Directors on February 25, 2021. Details are summarized in Note 6 (18).

XII. Others

(I) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. The total debt is the total liabilities reported in the Consolidated Balance Sheet. Total capital is calculated as "equity" as shown in the Consolidated Balance Sheet, plus net debt.

The Group maintained the same strategy in 2020 as in 2019. For the years ended December 31, 2020 and 2019, the debt-to-capital ratios were 22% and 20%, respectively.

(II) Financial instruments

1. Types of financial instrument

	December 31, 2020	December 31, 2019
Financial assets		
Financial assets measured at amortized cost		
Cash and cash equivalents	$ 2,260,204	$ 1,904,628
Financial assets measured at amortized cost	400,000	150,000
Notes receivable	258	1,366
Accounts receivable	879,782	964,038
Accounts receivable -- related parties	72	76
Other receivables	3,736	4,595
Other receivables - related parties	273	162
Other non-current assets -- pledged time deposits and refundable deposits	11,695	5,225
	$ 3,556,020	$ 3,030,090

	December 31, 2020	December 31, 2019
Financial liabilities		
Financial assets measured at amortized cost		
Accounts payable	$ 565,168	$ 429,449
Other payables	319,597	323,116
Long-term borrowings (including current portion)	20,311	21,833
Other non-current liabilities -- Guarantee deposit received	1,243	1,339
	$ 906,319	$ 775,737
Current lease liabilities	$ 22,098	$ 17,793
Non-current lease liabilities	192,781	115,732
	$ 214,879	$ 133,525

2. Risk management policies

(1) The Group’s activities expose it to a variety of financial risks, including market risk (exchange rate, interest rate and price), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and performance.

(2) Risk management is carried out by a central treasury department (Group treasury)

under policies approved by the senior executives. The Group's treasury department primarily identifies, evaluates and hedges financial risks.

3. Significant financial risks and degrees of financial risks

(1) Market risk

A. Foreign exchange risk

(A) The Group is a multinational operation and therefore is subject to exchange rate risk arising from transactions between the different currencies of the Company and its subsidiaries, mainly in USD, RMB, JPY and Euro. The related exchange risk from future business transactions have been recognized in assets and liabilities.

(B) The Group's management has set up policies to require companies within the Group to manage their foreign exchange risk against their functional currency. Each company hedges its overall exchange rate risk through its treasury department. Exchange rate risk arises when future business transactions and recognized assets or liabilities are denominated in foreign currencies that are not the entity's function currency.

(C) The Group's operations involve certain non-functional currencies (the Company’s and certain subsidiaries’ functional currency is the New Taiwan dollar (NTD), and for other certain subsidiaries, the functional currency is Euro, USD, JPY and Renminbi (RMB)), so it is subject to the impact of exchange rate fluctuation. The details of assets and liabilities denominated in foreign currencies whose values that would be materially affected by exchange rate fluctuations are as follows:

	December 31, 2020		
(Foreign currency: functional currency)	Foreign currency (in thousands)	Exchange rate	Book value (NT$)
Financial assets			
Monetary items			
USD : NTD	52,146	28.4800	$ 1,485,118
RMB : NTD	36,151	4.3770	158,233
JPY : NTD	154,323	0.2763	42,639
EUR : NTD	178	35.0200	6,234
Financial liabilities			
Monetary items			
USD : NTD	15,388	28.4800	438,250
RMB : NTD	170	4.3770	744
JPY : NTD	126	35.0200	4,413
EUR : NTD	16,151	0.2763	4,463
USD : RMB	5,096	6.5067	145,133

(Foreign currency: functional currency)	December 31, 2019 Foreign currency (in thousands)	 Exchange rate	 Book value (NT$)
Financial assets			
Monetary items			
USD : NTD	46,651	29.9800	$ 1,398,597
RMB : NTD	38,148	4.3050	164,227
JPY : NTD	95,585	0.2760	26,381
EUR : NTD	71	33.5900	2,385
Financial liabilities			
Monetary items			
USD : NTD	10,329	29.9800	309,663
JPY : NTD	20,955	0.2760	5,784
EUR : NTD	93	33.5900	3,124
USD : RMB	5,595	6.9638	167,733

(D) Total exchange gain, including realized and unrealized gains from significant foreign exchange variations on monetary items held by the Group amounted to a loss of ($53,641) and a loss of ($31,083) for the years ended December 31, 2020 and 2019, respectively.

(E) The analysis of foreign currency risk due to significant exchange rate fluctuation is as follows:

	2020 Sensitivity Analysis Fluctuation	 Effect on profit or loss	 Other comprehensive profit and loss affected
Financial assets			
Monetary items			
USD : NTD	1%	$ 14,851	$ -
RMB : NTD	1%	1,582	-
JPY : NTD	1%	426	-
EUR : NTD	1%	62	-
Financial liabilities			
Monetary items			
USD : NTD	1%	(4,383)	-
RMB : NTD	1%	(7)	-
JPY : NTD	1%	(44)	-
EUR : NTD	1%	(45)	-
USD : RMB	1%	(1,451)	-

	2019				
	Sensitivity Analysis				
	Fluctuation	Effect on profit or loss		Other comprehensive profit and loss affected	
Financial assets					
Monetary items					
USD : NTD	1%	$	13,986	$	-
RMB : NTD	1%		1,642		-
JPY : NTD	1%		264		-
EUR : NTD	1%		24		-
Financial liabilities					
Monetary items					
USD : NTD	1%	(	3,097)		-
JPY : NTD	1%	(	58)		-
EUR : NTD	1%	(	31)		-
USD : RMB	1%	(	1,677)		-

B. Price risk

The Group does not invest in equity instruments and has not yet had price risk associated with equity instrument investments.

C. Cash flow and fair value interest rate risk

(A) The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. During 2020 and 2019, the Group's borrowings at variable rates were denominated in NTD and EUR.

(B) For the years ended December 31, 2020 and 2019, if interest rates had been 1% higher, while all other variables held constant, the net profit after tax for 2020 and 2019 would have been $203 and $218 lower, respectively, mainly due to the higher interest expense on floating rate borrowings.

(2) Credit risk

A. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments under contract obligations. The defaults are accounts receivable and the contract cash flow from debt instruments measured at amortized cost.

B. The management of credit risk is established with a Group perspective. According to the Group’s credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilization of credit limits is regularly monitored.

C. The credit risk of the Group's investment in debt instrument measured at amortized cost refers to counterparties defaulting on contractual obligations, leading to the Group's financial losses. The Group associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

D. In considering the past experience, if the contract payment is overdue for more than 30 days in accordance with the agreed payment terms, the credit risk of the financial asset is significantly increased since the original recognition.

E. In considering the past experience with payment collection, if a contract payment is overdue for more than 180 days in accordance with the agreed payment terms, it is considered a breach of contract.

F. The Group categorizes the accounts receivable from customers based on their evaluation ratings. The loss rate method is adopted as the basis for estimating the expected credit loss.

G. The Group has included the economic indicators and signals of the National Development Council and Basel Committee on Banking Supervision's forward-looking considerations to adjust the loss rate based on historical and current information for a specific period.

H. The Group uses the following indicators to determine the status of credit impairments of debt instruments:

(A) The issuer has suffered significant financial difficulties or is likely to enter bankruptcy or other financial restructuring.

(B) The issuer has suffered significant financial difficulties or is likely to enter bankruptcy or other financial restructuring.

(C) The issuer delays or does not pay for the interest or principal.

(D) Unfavorable changes in the national- or regional-level economic situation resulting in the issuer's default.

I. The Group will continue the recourse for financial assets that have defaulted to protect the rights of the claims. The Group may write off the amount of financial assets that cannot be reasonably expected to be recovered after recourse.

J. The Group has incorporated forward-looking considerations to adjust the loss rate built according to historic and current data in order to estimate the loss allowance notes and accounts receivables. The loss rates are shown as follows:

	Not past due	Up to 30 days	31 to 60 days past due	61 to 180 days past due	More than 181 days past due	Total
December 31, 2020						
Expected loss rate	0.03%~0.08%	0.03%~1.01%	0.03%~13.34%	0.03%~78.73%	100%	
Notes receivable	$ 258	$ -	$ -	$ -	$ -	$ 258
Accounts receivable	826,895	47,911	5,982	222	50	881,060
Total book value	$ 827,153	$ 47,911	$ 5,982	$ 222	$ 50	$ 881,318
Loss allowance	($ 286)	($ 89)	($ 742)	($ 39)	($ 50)	($ 1,206)

	Not past due	Up to 30 days	31 to 60 days past due	61 to 180 days past due	More than 181 days past due	Total
December 31, 2019						
Expected loss rate	0.03%-0.05%	0.03%-0.15%	0.03%-6.84%	0.03%-71.14%	100%	
Notes receivable	$ 1,366	$ -	$ -	$ -	$ -	$ 1,366
Accounts receivable	903,952	54,648	5,355	521	207	964,683
Total book value	$ 905,318	$ 54,648	$ 5,355	$ 521	$ 207	$ 966,049
Loss allowance	$ -	$ -	($ 249)	($ 113)	($ 207)	($ 569)

The above is an aging report based on the number of days past due.

K. The Group adopts a simplified method in which the loss allowance for the accounts receivable is shown below:

	2020 Accounts receivable	2019 Accounts receivable
January 1	$ 569	$ 3,061
Expected loss (gain) on credit impairment	6,640	(2,494)
Write-offs	(5,982)	-
Remitted back	-	3
Impact from exchange rate	(21)	(1)
December 31	$ 1,206	$ 569

(3) Liquidity risk

A. Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group’s treasury department. It monitors rolling forecasts of liquidity requirements to ensure the Group has sufficient cash to meet operational needs.

B. The treasury department of the Group invests the remaining funds in interest-bearing demand deposits and domestic money market funds, as the instruments chosen have appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. For the years ended December 31, 2020 and 2019, the position of money market held by the Group is expected to generate immediate cash flow to manage liquidity risk.

C. The Group does not have derivative financial liabilities. The table below analyzes the non-derivative financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. Except for those listed in the table, others mature within a year. The undiscounted cash flow amount is equivalent to the amount listed in the balance sheet. The remaining undiscounted cash flow of non-derivative financial liabilities is shown as follows:

December 31, 2020	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Non-derivative financial liabilities:					
Lease liabilities (Current/ Non-current)	$ 24,546	$ 15,654	$ 27,195	$ 189,978	$ 257,373
Long-term borrowings (including current portion)	2,691	2,662	15,602	-	20,955

December 31, 2019	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Non-derivative financial liabilities:					
Lease liabilities (Current/ Non-current)	$ 19,252	$ 11,520	$ 12,343	$ 123,901	$ 167,016
Long-term borrowings (including current portion)	2,611	2,581	17,517	-	22,709

(III) Fair value information

1. The Group has no financial instruments measured at fair value. And the book value of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivable (including related parties), other non-current assets -- refundable deposits and pledged time deposits, accounts payable, other payable, lease liabilities, long-term borrowings and other non-current liabilities -- guarantee deposit received) is a reasonable approximation of fair value.

2. For fair value information of investment property measured at cost, please refer to Note 6 (9).

XIII. Additional disclosures

(I) Significant transactions information

1. Loans to others: None.
2. Provision of endorsements and guarantees to others: Please refer to Schedule 1.
3. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
4. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: None.
5. Acquisition of real estate exceeding $300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate exceeding $300 million or 20% of paid-in capital or more: None.
7. Purchases from or sales to related parties with amounts exceeding $100 million or 20% of paid-in capital or more: Please refer to Schedule 2.
8. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to Schedule 3.
9. Engagement in derivative transactions: None.
10. Significant inter-company transactions during the reporting periods: Please refer to Schedule 4.

(II) Information on investees

Names, locations and other information of investee companies (not including investees in China): Please refer to Schedule 5.

(III) Information on investments in China

1. Basic information: Please refer to Schedule 6.
2. Significant transactions, either directly or indirectly through a third area, with investee companies in China: Please refer to Schedule 7.

(IV) Information on major shareholders

For information on major shareholders: Please refer to Schedule 8.

XIV. Operating Segments Information

(I) General information

The Group is involved in only one industry. The main business is the research, development, manufacturing and sales of industrial memory storage devices. The Group's operating decision maker evaluates the performance and allocates resources of the Group as a whole, and has identified that the Company has only one reportable operating segment.

(II) Measurement of segment information

The accounting policies of the operating segments of the Group are the same as those of the Company. The Company's operating decision maker assesses the performance of each operating segments based on the operating net profit.

(III) Information on segment profit and loss, assets and liabilities

The Group has only one reportable segment and is not required to disclose information on segment profit or loss, assets and liabilities. The accounting policies and estimates of the Company’s reportable segment are the same as the significant accounting policies summarized in Note 4 and 5 and significant estimates and assumptions.

(IV) Reconciliation for segment income

1. Sales between segments are conducted according to the principle of transactions at fair value. The operating revenue from external customers reported to the operating decision maker is measured in a manner consistent with that in the comprehensive income statement. A reconciliation of reportable segment income to the profit before tax from continuing operations is provided as follows:

	2020	2019
Reportable segment profits or losses	$ 1,207,293	$ 1,388,887
Interest income	6,539	7,615
Other income	22,031	13,785
Other gains and losses	(52,721)	(35,497)
Finance cost	(2,293)	(2,282)
Shares of losses of the associated companies and joint ventures recognized by adoption of the equity method	(13,253)	(57,873)
Income before tax from continuing operations	$ 1,167,596	$ 1,314,635

2. The amount of total assets provided to the chief operating decision-maker is measured in a manner consistent with the assets on the balance sheet, and the Group's reportable

segment assets are equal to total assets and no reconciliation is required.

(V) Information on products and services

The Group is in the business of various industrial memory storage devices, and the details on revenue balance are shown as follows:

	2020	2019
Revenue from product sales	$ 7,152,015	$ 7,361,665

(VI) Geographical information

The Group's income from external customers is classified by country and the location of non-current assets:

	2020		2019	
	Revenue	Non-current assets (Note)	Revenue	Non-current assets (Note)
Taiwan	$ 2,005,174	$ 1,595,543	$ 1,602,606	$ 1,554,891
United States	1,088,907	65,880	1,446,436	70,230
Japan	482,740	10,650	631,558	4,724
Germany	413,408	-	626,440	-
China	1,632,113	12,640	1,449,243	17,659
Others	1,529,673	51,629	1,605,382	51,258
	$ 7,152,015	$ 1,736,342	$ 7,361,665	$ 1,698,762

Note: Non-current assets do not include financial assets and deferred income tax assets:

(VII) Major customer information

For 2020 and 2019, the Group had no customers accounting for more than 10% of the sales revenue.

Innodisk Corporation and Subsidiaries

Provision of endorsements and guarantees to others

January 1 to December 31, 2020

Schedule 1

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

Number (Note 1)	Endorser / guarantor	Party being endorsed/guaranteed: Company name	Relationship (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount for the period (Note 4)	Outstanding endorsement/ guarantee amount for the period	Actual amount drawn down	Amount of endorsements/guarantees secured with collateral	Percentage of accumulated endorsement/guarantee amount to net asset value of the endorser/guarantor company	Ceiling on the total amount of endorsements/guarantees provided (Note 3)	Provision of endorsements/guarantees by the parent company to the subsidiary	Provision of endorsements/guarantees by the subsidiary to the parent company	Provision of endorsements/guarantees to the party in China	Remarks
0	Innodisk Corporation	Innodisk Europe B.V.	2	$ 963,249	$ 24,514	$ 24,514	$ 20,312	$ -	0.51%	$ 2,408,123	Y	N	N	
0	Innodisk Corporation	Innodisk USA Corporation	2	963,249	21,158	19,936	-	-	0.41%	2,408,123	Y	N	N	
0	Innodisk Corporation	Aetina Corporation	2	963,249	75,000	45,000			0.93%	2,408,123	Y	N	N	

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1) Issuer fills in 0.

(2) The subsidiaries are numbered in order starting from 1.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of categories each case belongs to:

(1) A company with which it has business dealings.

(2) The Company directly or indirectly holds more than 50% of the voting shares of the other company.

(3) The other company directly or indirectly holds more than 50% of the voting shares of the Company.

(4) The Company directly or indirectly holds more than 90% of the voting shares of the other company.

(5) Mutual guarantee of the trade or joint proprietor as required by the construction contract.

(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7) Industry peers provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: The total amount of endorsements and guarantees of the Company must not exceed 50% of the Company's net worth, and the total amount to a single enterprise shall not exceed 20% of the Company's net worth.

Note 4: Maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Innodisk Corporation and Subsidiaries

Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more

January 1 to December 31, 2020

Schedule 2

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

			Transaction				Differences in transaction terms compared with third party transactions		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty name	Relationship with the endorser/guarantor	Purchase / Sales	Amount	Percentage of total purchases (sales)	Credit term	Unit Price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Remarks
Innodisk Corporation	Innodisk USA Corporation	Subsidiary	(Sales)	($ 1,102,008)	(17%)	Net 60	As agreed by both parties	Normal	$ 136,312	16%	
Innodisk Corporation	Innodisk Shenzhen Corporaion	Subsidiary	(Sales)	(771,840)	(12%)	Net 60	As agreed by both parties	Normal	145,124	17%	
Innodisk USA Corporation	Innodisk Corporation	Parent company	Purchase	1,102,008	23%	Net 60	As agreed by both parties	Normal	(136,312)	(25%)	
Innodisk Shenzhen Corporaion	Innodisk Corporation	Parent company	Purchase	771,840	16%	Net 60	As agreed by both parties	Normal	(145,124)	(27%)	

Innodisk Corporation and Subsidiaries

Receivables from related parties reaching $100 million or 20% of paid-in capital or more:

January 1 to December 31, 2020

Schedule 3

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

Companies with accounts receivable	Counterparty name	Relationship with the endorser/guarantor	Balance of account receivable from related parties	Turnover rate	Overdue receivables Amount	Overdue receivables Action taken	Amount collected subsequent to the balance sheet date	Amount of recognized allowance for bad debts
Innodisk Corporation	Innodisk USA Corporation	Subsidiary	$ 136,312	6.63	$ -	Not applicable	$ 69,141	$ -
Innodisk Corporation	Innodisk Shenzhen Corporaion	Subsidiary	145,124	4.93	-	Not applicable	55,821	-

Innodisk Corporation and Subsidiaries

Significant inter-company transactions during the reporting periods and their business relationships.

January 1 to December 31, 2020

Schedule 4

Individual transactions less than $10 million will not be disclosed. Transactions which are disclosed as part of the parent company's transactions will not be disclosed again.

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

Number (Note 1)	Relationship	Counterparty	Relationship with the counterparty (Note 2)	Status of transaction: General ledger account	Status of transaction: Amount	Status of transaction: Transaction terms	Status of transaction: Percentage of consolidated total operating revenues or total assets (Note 3)
0	Innodisk Corporation	Innodisk USA Corporation	(1)	Sales	$ 1,102,008	Same with other customers	15%
0	Innodisk Corporation	Innodisk Shenzhen Corporaion	(1)	Sales	771,840	Same with other customers	11%
0	Innodisk Corporation	Innodisk USA Corporation	(1)	Accounts receivable	136,312	Same with other customers	2%
0	Innodisk Corporation	Innodisk Shenzhen Corporaion	(1)	Accounts receivable	145,124	Same with other customers	2%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is "0."

(2) The subsidiaries are numbered in order starting from "1."

Note 2: Relationship between the transaction company and the counterparty is classified into the following three categories; fill in the number of categories each case belongs to (If transactions between the parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; similarly for subsidiary-subsidiary transactions.

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiaries.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement account

Innodisk Corporation and Subsidiaries

Names, locations and other information of investee companies (not including investees in China)

January 1 to December 31, 2020

Schedule 5

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

Name of Investor	Investee	Location	Main business activities	Initial investment amount (Note) Balance at the end of period	End of the previous year	Shares held as of the end of period Number of Shares	Ownership	Book value	Net profit (loss) of the investee for the current period	Investment income (loss) recognized for the current period	Remarks
Innodisk Corporation	Innodisk USA Corporation	United States	Industrial embedded storage devices	$ 140,499	$ 140,499	2,046,511	100	$ 56,572	($ 18,886)	($ 18,966)	
Innodisk Corporation	Innodisk Japan	Japan	After-sales services and support of industrial embedded storage devices	3,533	3,533	196	100	7,901	460	465	
Innodisk Corporation	Innodisk Europe B.V.	Netherlands	After-sales services and support of industrial embedded storage devices	17,802	17,802	50,000,100	100	34,408	3,489	3,489	
Innodisk Corporation	Innodisk Global-M Corporation	Mauritius	Investment holdings	20,154	18,659	665,000	100	61,911	25,146	25,139	
Innodisk Corporation	Aetina Corporation	Taiwan	Manufacturing and sales of industrial graphics cards	24,091	24,700	10,689,390	75.63	151,391	39,000	30,149	
Innodisk Corporation	AccelStorInc.	Taiwan	Computers and computing peripheral equipment manufacturing	224,058	224,058	16,652,700	40.37	-	-	-	
Innodisk Corporation	Millitronic Co.,Ltd.	Taiwan	Electronic parts and components manufacturing.	54,157	35,157	5,415,720	33.55	18,233	(17,835)	(5,839)	
Innodisk Corporation	Antzer Tech	Taiwan	Electronic parts and components manufacturing.	37,244	37,244	18,622,118	31.89	4,751	(16,028)	(5,111)	
Innodisk Corporation	Sysinno Technology Inc.	Taiwan	Electronic parts and components manufacturing.	12,900	12,900	645,000	43.00	10,140	(5,355)	(2,303)	

Note: Disclosed at the historical exchange rate.

Innodisk Corporation and Subsidiaries

Information on investments in China

January 1 to December 31, 2020

Schedule 6

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

Investee in China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to China	Amount remitted from Taiwan to China/Amount remitted back to Taiwan for the year: Remitted to	Remitted back	Accumulated amount of remittance from Taiwan to China	Net profit (loss) of the investee for the current period	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized for the current period (Note 2)	Net profit (loss) of the investee for the year	Accumulated amount of investment income remitted back to Taiwan	Remarks
Innodisk Shenzhen Corporaion	Industrial embedded storage devices	$18,168 (US$600 thousand) (Note 3)	2.Innodisk Global-M Corporation	$18,168 (US$600 thousand) (Note 3)	$ -	$ -	$18,168 (US$600 thousand) (Note 3)	$ 25,299	100	$ 25,299	$ 59,870	$ -	

Note 1: Investment methods are classified into the following three categories; fill in the number of categories that each case belongs to:

(1). Directly invest in a company in China.

(2) Through investing in an existing company in the third area (please specify the company), which then invests in China.

(3) Others.

Note 2: The investment income (loss) recognized in the current period is based on the investee company's financial statements for the same period audited by the parent company's independent accountants in Taiwan.

Note 3: Disclosed at the historical exchange rate.

Company name	Accumulated amount of remittance from Taiwan to China	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in China imposed by the Investment Commission of MOEA (Note 4)
Innodisk Corporation	$18,168 (US$600 thousands) (Note 5)	$18,168 (US$600 thousands) (Note 5)	$ 2,889,748

Note 4: 60% of the net worth in accordance with the provisions of the (90) Tai-Cai-Zheng (I) #006130 announced by the Securities and Futures Commission, Ministry of Finance, on November 16, 2001.

Note 5: Disclosed at the historical exchange rate.

Innodisk Corporation and Subsidiaries

Significant transactions, either directly or indirectly through a third area, with investee companies in China

January 1 to December 31, 2020

Schedule 7

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

	Sales / Purchase		Property transactions		Accounts receivable / payable		Notes endorsement and guarantee or provision of collateral		Financial intermediation				
Investee in China	Amount	%	Amount	%	Balance	%	Balance at the end of period	Purpose	Highest balance	Balance at the end of period	Range of interest rate	Current interest rate	Others
Innodisk Shenzhen Corporaion	$ 771,840	11%	$ -	-	$ 145,124	2%	$ -	-	$ -	$ -	-	$ -	-

Innodisk Corporation and Subsidiaries

Information on major shareholders

December 31, 2020

Schedule 8

Expressed in Thousands of NTD

(Except as Unless otherwise indicated specified)

Names of major shareholders	Shares	
	Number of Shares Held	Ownership
Rui Ding Invest Co., Ltd.	5,947,037	7.31%

Note 1: The information on major shareholders in this Exhibit is compiled by Taiwan Depository & Clearing Corporation based on the last business day of the quarter in which the shareholders held 5% or more of the Company's common shares and preferred shares whose registration and delivery have been completed in non-physical form (including treasury shares).
The number of shares recorded in the Company's financial statements and the actual number of shares registered and delivered in non-physical form may differ depending on the basis of preparation of the calculations.

Note 2: If a shareholder delivers his or her shares to a trust, the above information shall be disclosed by the individual trustor account opened by the trustee. As for the shareholder’s declaration of insider’s equity in accordance with the Securities and Exchange Act, the shareholding of the shareholder includes his or her own shares plus the shares that he or she has delivered to a trust and has the right to decide the use of the trust property, etc. Please refer to the Market Observation Post System for information on insider's equity declaration.