

Innodisk Corporation and Subsidiaries
Consolidated Financial Statements and Independent
Auditor's Review Report
For The Six Months Ended June 30, 2022 and 2021
(Stock Code: 5289)

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Innodisk Corporation and Subsidiaries
Consolidated Financial Statements and Independent Auditor's Review Report for the
Six Months Ended June 30, 2022 and 2021
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Independent Auditors' Review Report

To the Board of Directors and Stockholders of Innodisk Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of Innodisk Corporation and its subsidiaries (the "Group") as of June 30, 2022 and 2021, the related consolidated statements of comprehensive income for the three months ended June 30, 2022 and 2021 and for the six months ended June 30, 2022 and 2021, the consolidated statements of changes in equity and cash flows for the six months then ended June 30, 2022 and 2021, and notes to the consolidated financial statements (including a summary of significant accounting policies.) Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulation Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Statement 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

We concluded our reviews in accordance with Statements of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries (primarily of persons responsible for financial and accounting matters), and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material aspects the consolidated financial position of the Group as of June 30, 2022 and 2021, and its consolidated financial performance for the three months ended June 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the six months then ended June 30, 2022 and 2021 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

Yeh, Tsui Miao

Huang, Shih-Chun

For and on behalf of PricewaterhouseCoopers, Taiwan

August 5, 2022

Innodisk Corporation and Subsidiaries

Consolidated Balance Sheet

June 30, 2022, December 31, 2021, and June 30, 2021

(The accompanying consolidated balance sheets as of June 30, 2022 and 2021 have been reviewed only, and have not been audited in accordance with generally accepted auditing standards.)

| | | Expressed in Thousands of NTD | | | | | |
|---------------------------|---|-------------------------------|------------|---------------------|------------|---------------------|------------|
| Assets | Note | June 30, 2022 | | December 31, 2021 | | June 30, 2021 | |
| | | Amount | % | Amount | % | Amount | % |
| Current assets | | | | | | | |
| 1100 | Cash and cash equivalents | \$ 2,605,663 | 29 | \$ 2,137,891 | 26 | \$ 1,576,223 | 21 |
| 1136 | Current financial assets at amortized cost | 600,000 | 7 | 600,000 | 8 | 700,000 | 9 |
| 1150 | Notes receivable | 2,381 | - | 1,986 | - | 550 | - |
| 1170 | Accounts receivable, net | 1,833,128 | 20 | 1,554,637 | 19 | 1,872,896 | 25 |
| 1180 | Accounts receivable -- related parties | 15 | - | 2 | - | 13 | - |
| 1200 | Other receivables | 5,066 | - | 6,139 | - | 3,774 | - |
| 1210 | Other receivables -- related parties | 31 | - | 42 | - | 63 | - |
| 1220 | Current income tax assets | 3,513 | - | 494 | - | 447 | - |
| 130X | Inventories | 1,340,743 | 15 | 1,664,349 | 20 | 1,488,981 | 20 |
| 1410 | Prepayments | 62,485 | 1 | 102,658 | 1 | 80,317 | 1 |
| 11XX | Total Current Assets | <u>6,453,025</u> | <u>72</u> | <u>6,068,198</u> | <u>74</u> | <u>5,723,264</u> | <u>76</u> |
| Non-current assets | | | | | | | |
| 1517 | Financial assets at fair value through other comprehensive income-non-current | 27,939 | - | - | - | - | - |
| 1535 | Financial assets at amortized cost- non-current | 10,706 | - | 10,706 | - | 7,706 | - |
| 1550 | Investments accounted for using equity method | 16,073 | - | 18,738 | - | 22,106 | - |
| 1600 | Property, plant and equipment | 2,033,160 | 23 | 1,616,786 | 20 | 1,356,890 | 18 |
| 1755 | Right-of-use assets | 204,730 | 2 | 206,101 | 2 | 213,926 | 3 |
| 1760 | Investment property, net | 119,384 | 1 | 99,351 | 1 | 100,766 | 1 |
| 1780 | Intangible assets | 39,788 | 1 | 47,137 | 1 | 35,551 | - |
| 1840 | Deferred income tax assets | 87,058 | 1 | 76,339 | 1 | 52,490 | 1 |
| 1920 | Refundable deposits | 4,272 | - | 4,571 | - | 4,545 | - |
| 1990 | Other non-current assets | 4,807 | - | 83,511 | 1 | 37,673 | 1 |
| 15XX | Total Non-current assets | <u>2,547,217</u> | <u>28</u> | <u>2,163,240</u> | <u>26</u> | <u>1,831,653</u> | <u>24</u> |
| 1XXX | Total Assets | <u>\$ 9,000,242</u> | <u>100</u> | <u>\$ 8,231,438</u> | <u>100</u> | <u>\$ 7,554,917</u> | <u>100</u> |

(Continued)

Innodisk Corporation and Subsidiaries

Consolidated Balance Sheet

June 30, 2022, December 31, 2021, and June 30, 2021

(The accompanying consolidated balance sheets as of June 30, 2022 and 2021 have been reviewed only, and have not been audited in accordance with generally accepted auditing standards.)

Expressed in Thousands of NTD

| | Liabilities and Equity | Note | June 30, 2022 | | December 31, 2021 | | June 30, 2021 | |
|------|--|--------|---------------------|------------|---------------------|------------|---------------------|------------|
| | | | Amount | % | Amount | % | Amount | % |
| | Current liabilities | | | | | | | |
| 2100 | Short-term loans | 6 (13) | \$ - | - | \$ - | - | \$ 83,580 | 1 |
| 2130 | Current contract liabilities | 6 (21) | 28,975 | - | 31,810 | - | 52,869 | 1 |
| 2170 | Accounts payable | | 429,828 | 5 | 956,657 | 12 | 829,998 | 11 |
| 2180 | Accounts payable -- related parties | 7 (2) | 68 | - | 385 | - | - | - |
| 2200 | Other payables | 6 (12) | 1,437,880 | 16 | 489,380 | 6 | 335,274 | 4 |
| 2230 | Current income tax liabilities | | 273,102 | 3 | 292,912 | 4 | 203,969 | 3 |
| 2250 | Provisions for liabilities-current | 6 (17) | 65,690 | 1 | 59,851 | 1 | 66,574 | 1 |
| 2280 | Current lease liabilities | | 21,264 | - | 21,312 | - | 22,861 | - |
| 2320 | Long-term liabilities -- current portion | 6 (14) | 2,174 | - | 2,193 | - | 2,321 | - |
| 2399 | Other current liabilities, others | | 7,540 | - | 6,021 | - | 19,562 | - |
| 21XX | Current Liabilities | | <u>2,266,521</u> | <u>25</u> | <u>1,860,521</u> | <u>23</u> | <u>1,617,008</u> | <u>21</u> |
| | Non-current liabilities | | | | | | | |
| 2540 | Long-term loans | 6 (14) | 408,265 | 5 | 140,461 | 2 | 16,243 | - |
| 2570 | Deferred income tax liabilities: | | 3,688 | - | 8,279 | - | 26 | - |
| 2580 | Non-current lease liabilities | | 186,224 | 2 | 187,265 | 2 | 193,068 | 3 |
| 2645 | Deposits received | 7 (2) | 1,484 | - | 1,402 | - | 1,132 | - |
| 25XX | Non-current Liabilities | | <u>599,661</u> | <u>7</u> | <u>337,407</u> | <u>4</u> | <u>210,469</u> | <u>3</u> |
| 2XXX | Total liabilities | | <u>2,866,182</u> | <u>32</u> | <u>2,197,928</u> | <u>27</u> | <u>1,827,477</u> | <u>24</u> |
| | Equity attributable to owners of parent | | | | | | | |
| | Share capital | 6 (18) | | | | | | |
| 3110 | Share capital - common stock | | 838,950 | 9 | 826,680 | 10 | 825,160 | 11 |
| 3150 | Stock dividends to be distributed | | 24,801 | - | | | | |
| | Capital surplus | 6 (19) | | | | | | |
| 3200 | Capital surplus | | 1,323,787 | 15 | 1,213,829 | 14 | 1,191,475 | 15 |
| | Retained earnings | 6 (20) | | | | | | |
| 3310 | Legal reserve | | 766,831 | 9 | 610,743 | 8 | 517,734 | 7 |
| 3320 | Special reserve | | 13,147 | - | 5,438 | - | 4,080 | - |
| 3350 | Unappropriated retained earnings | | 3,084,098 | 34 | 3,317,446 | 40 | 3,140,849 | 42 |
| | Other equity interests | | | | | | | |
| 3400 | Other equity interests | | (7,753) | - | (13,147) | - | (10,683) | - |
| 31XX | Total equity attributable to owners of parent | | <u>6,043,861</u> | <u>67</u> | <u>5,960,989</u> | <u>72</u> | <u>5,668,615</u> | <u>75</u> |
| 36XX | Non-controlling interest | | <u>90,199</u> | <u>1</u> | <u>72,521</u> | <u>1</u> | <u>58,825</u> | <u>1</u> |
| 3XXX | Total equity | | <u>6,134,060</u> | <u>68</u> | <u>6,033,510</u> | <u>73</u> | <u>5,727,440</u> | <u>76</u> |
| | Significant contingent liabilities and unrecognized contract commitments | 9 | | | | | | |
| | Significant events after the balance sheet date | 11 | | | | | | |
| 3X2X | Total Liabilities and Equity | | <u>\$ 9,000,242</u> | <u>100</u> | <u>\$ 8,231,438</u> | <u>100</u> | <u>\$ 7,554,917</u> | <u>100</u> |

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

Chairman: Chien, Chuan-Sheng

Manager: Chien, Chuan-Sheng

Head of Accounting: Hsiao, Wen-Kuei

Innodisk Corporation and Subsidiaries
Consolidated Statement of Comprehensive Income
January 1 to June 30, 2022 and 2021

(Reviewed only, not audited in accordance with generally accepted auditing standards.)

Expressed in Thousands of NTD
(Except for earnings per share)

| Item | Note | April 1, 2022 to June 30, 2022 | | April 1, 2021 to June 30, 2021 | | January 1, 2022 to June 30, 2022 | | January 1, 2021 to June 30, 2021 | |
|--|---------------------|-----------------------------------|-------|-----------------------------------|-------|-------------------------------------|-------|-------------------------------------|-------|
| | | Amount | % | Amount | % | Amount | % | Amount | % |
| 4000 Operating revenue | 6 (21) and 7 (2) | \$ 2,866,579 | 100 | \$ 2,885,046 | 100 | \$ 5,456,316 | 100 | \$ 4,824,966 | 100 |
| 5000 Operating costs | 6 (5) and 7 (2) | (1,919,077) | (67) | (1,996,896) | (69) | (3,773,407) | (69) | (3,385,613) | (70) |
| 5950 Gross profit before unrealized gross profit on sales to subsidiaries | | 947,502 | 33 | 888,150 | 31 | 1,682,909 | 31 | 1,439,353 | 30 |
| Operating expenses | 6 (26) and 7 (2) | | | | | | | | |
| 6100 Selling expenses | | (149,831) | (5) | (111,959) | (4) | (278,588) | (5) | (212,699) | (5) |
| 6200 General and administrative expenses | | 117,602 | (4) | 114,618 | (4) | 230,520 | (4) | 206,179 | (4) |
| 6300 Research and development expenses | | (78,062) | (3) | (44,793) | (2) | (148,674) | (3) | (85,416) | (2) |
| 6450 Expected loss on credit impairment | 12 (2) | (380) | - | (177) | - | (951) | - | (147) | - |
| 6000 Total operating expenses | | (345,875) | (12) | (271,547) | (10) | (658,733) | (12) | (504,441) | (11) |
| 6900 Operating profit | | 601,627 | 21 | 616,603 | 21 | 1,024,176 | 19 | 934,912 | 19 |
| Non-operating income and expenses | | | | | | | | | |
| 7100 Interest income | 6 (22) | 2,642 | - | 2,062 | - | 3,725 | - | 3,497 | - |
| 7010 Other income | 6 (23) and 7 (2) | 3,565 | - | 8,854 | - | 9,152 | - | 26,555 | - |
| 7020 Other gains and losses | 6 (24) | (75,650) | 3 | (17,547) | - | 137,514 | 2 | (21,506) | - |
| 7050 Finance cost | 6 (25) | (1,844) | - | (739) | - | (3,331) | - | (1,446) | - |
| 7060 Shares of losses of associates and joint ventures accounted for using equity method | 6 (6) | 939 | - | (1,002) | - | (2,665) | - | (4,486) | - |
| 7000 Total non-operating income and expenses | | 79,074 | 3 | (8,372) | - | 144,395 | 2 | 2,614 | - |
| 7900 Profit before income tax | | 680,701 | 24 | 608,231 | 21 | 1,168,571 | 21 | 937,526 | 19 |
| 7950 Income tax expense | 6 (28) | (133,150) | (5) | (125,022) | (4) | (231,644) | (4) | (193,391) | (4) |
| 8200 Profit for the period | | \$ 547,551 | 19 | \$ 483,209 | 17 | \$ 936,927 | 17 | \$ 744,135 | 15 |
| Other comprehensive income | | | | | | | | | |
| Components of other comprehensive income that will not be reclassified to profit or loss | | | | | | | | | |
| 8316 Unrealized profit or loss on equity instruments at fair value through other comprehensive income | 6 (2) | (\$ 700) | - | \$ - | - | (\$ 2,731) | - | \$ - | - |
| 8310 Components of other comprehensive income that will not | | (700) | - | - | - | (2,731) | - | - | - |

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

Chairman: Chien, Chuan-Sheng

Manager: Chien, Chuan-Sheng

Head of Accounting: Hsiao, Wen-Kuei

Innodisk Corporation and Subsidiaries
Consolidated Statement of Comprehensive Income
January 1 to June 30, 2022 and 2021

(Reviewed only, not audited in accordance with generally accepted auditing standards.)

Expressed in Thousands of NTD
(Except for earnings per share)

| Item | Note | April 1, 2022 to June 30, 2022 | | April 1, 2021 to June 30, 2021 | | January 1, 2022 to June 30, 2022 | | January 1, 2021 to June 30, 2021 | |
|--|--------|-----------------------------------|----|-----------------------------------|----|-------------------------------------|----|-------------------------------------|----|
| | | Amount | % | Amount | % | Amount | % | Amount | % |
| be reclassified to profit or loss | | | | | | | | | |
| Components of other comprehensive income that will be reclassified to profit or loss: | | | | | | | | | |
| 8361 Financial statements translation differences of foreign operations | | 1,587 | - | (2,794) | - | 8,125 | - | (5,281) | - |
| 8360 Components of other comprehensive loss that will be reclassified to profit or loss | | (1,587) | - | (2,794) | - | (8,125) | - | (5,281) | - |
| 8300 Other comprehensive loss for the period, net of tax | | \$ 887 | - | (\$ 2,794) | - | \$ 5,394 | - | (\$ 5,281) | - |
| 8500 Total comprehensive income for the period | | \$ 548,438 | 19 | \$ 480,415 | 17 | \$ 942,321 | 17 | \$ 738,854 | 15 |
| Profit attributable to: | | | | | | | | | |
| 8610 Owners of the parent | | \$ 536,500 | 19 | \$ 477,358 | 17 | \$ 922,467 | 17 | \$ 736,921 | 15 |
| 8620 Non-controlling interest | | 11,051 | - | 5,851 | - | 14,460 | - | 7,214 | - |
| Profit for the period | | \$ 547,551 | 19 | \$ 483,209 | 17 | \$ 936,927 | 17 | \$ 744,135 | 15 |
| Comprehensive income attributable to: | | | | | | | | | |
| 8710 Owners of the parent | | \$ 537,387 | 19 | \$ 474,565 | 17 | \$ 927,861 | 17 | \$ 731,676 | 15 |
| 8720 Non-controlling interest | | 11,051 | - | 5,850 | - | 14,460 | - | 7,178 | - |
| Total comprehensive income for the period | | \$ 548,438 | 19 | \$ 480,415 | 17 | \$ 942,321 | 17 | \$ 738,854 | 15 |
| Basic earnings per share | 6 (29) | | | | | | | | |
| 9750 Profit for the period | | \$ 6.41 | | \$ 5.79 | | \$ 11.05 | | \$ 8.96 | |
| Diluted earnings per share | 6 (29) | | | | | | | | |
| 9850 Profit for the period | | \$ 6.37 | | \$ 5.72 | | \$ 10.96 | | \$ 8.84 | |

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

Chairman: Chien, Chuan-Sheng

Manager: Chien, Chuan-Sheng

Head of Accounting: Hsiao, Wen-Kuei

Innodisk Corporation and Subsidiaries
Consolidated Statement of Changes in Equity
January 1 to June 30, 2022 and 2021
(Reviewed only, not audited in accordance with generally accepted auditing standards.)

Expressed in Thousands of NTD

| | Note | Equity attributable to owners of parent | | | | | | | | | | |
|--|-------|---|-----------------------------------|-----------------|-------------------|-----------------|----------------------------------|--|--|--------------|--------------------------|--------------|
| | | Share capital | | | Retained earnings | | | | Other equity interests | | | |
| | | Share capital – common stock | Stock dividends to be distributed | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statements translation differences of foreign operations | Unrealized profit or loss on financial assets at fair value through other comprehensive income | Total | Non-controlling interest | Total equity |
| January 1 to June 30, 2021 | | | | | | | | | | | | |
| Balance as of January 1, 2021 | | \$ 813,240 | \$ - | \$ 1,082,702 | \$ 517,734 | \$ 4,080 | \$ 2,403,928 | (\$ 5,438) | \$ - | \$ 4,816,246 | \$ 48,815 | \$ 4,865,061 |
| Profit for the period | | - | - | - | - | - | 736,921 | - | - | 736,921 | 7,214 | 744,135 |
| Other comprehensive profit and loss for the period | | - | - | - | - | - | - | (5,245) | - | (5,245) | (36) | (5,281) |
| Total comprehensive profit and loss for the period | | - | - | - | - | - | 736,921 | (5,245) | - | 731,676 | 7,178 | 738,854 |
| Share-based payment | 6(16) | - | - | 10,075 | - | - | - | - | - | 10,075 | - | 10,075 |
| Exercise of employee share options | 6(18) | 11,920 | - | 98,698 | - | - | - | - | - | 110,618 | - | 110,618 |
| Share-based remuneration for employees of subsidiaries | | - | - | - | - | - | - | - | - | - | 2,832 | 2,832 |
| Balance as of June 30, 2021 | | \$ 825,160 | \$ - | \$ 1,191,475 | \$ 517,734 | \$ 4,080 | \$ 3,140,849 | (\$ 10,683) | \$ - | \$ 5,668,615 | \$ 58,825 | \$ 5,727,440 |
| Balance as of January 1, 2022 | | | | | | | | | | | | |
| Balance as of January 1, 2022 | | \$ 826,680 | \$ - | \$ 1,213,829 | \$ 610,743 | \$ 5,438 | \$ 3,317,446 | (\$ 13,147) | \$ - | \$ 5,960,989 | \$ 72,521 | \$ 6,033,510 |
| Profit for the period | | - | - | - | - | - | 922,467 | - | - | 922,467 | 14,460 | 936,927 |
| Other comprehensive profit and loss for the period | | - | - | - | - | - | - | 8,125 | (2,731) | 5,394 | - | 5,394 |
| Total comprehensive profit and loss for the period | | - | - | - | - | - | 922,467 | 8,125 | (2,731) | 927,861 | 14,460 | 942,321 |
| Appropriations and of 2021 earnings | 6(20) | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | | - | - | - | 156,088 | - | (156,088) | - | - | - | - | - |
| Special reserve | | - | - | - | - | 7,709 | (7,709) | - | - | - | - | - |
| Stock dividends | | - | 24,801 | - | - | - | (24,801) | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | (967,217) | - | - | (967,217) | - | (967,217) |
| Share-based payment | 6(16) | - | - | 12,043 | - | - | - | - | - | 12,043 | - | 12,043 |
| Exercise of employee share options | 6(18) | 12,270 | - | 97,915 | - | - | - | - | - | 110,185 | - | 110,185 |
| Share-based remuneration for employees of subsidiaries | | - | - | - | - | - | - | - | - | - | 3,218 | 3,218 |
| Balance as of June 30, 2022 | | \$ 838,950 | \$ 24,801 | \$ 1,323,787 | \$ 766,831 | \$ 13,147 | \$ 3,084,098 | (\$ 5,022) | (\$ 2,731) | \$ 6,043,861 | \$ 90,199 | \$ 6,134,060 |

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

Chairman: Chien, Chuan-Sheng

Manager: Chien, Chuan-Sheng

Head of Accounting: Hsiao, Wen-Kuei

Innodisk Corporation and Subsidiaries
Consolidated Cash Flow Statement
January 1 to June 30, 2022 and 2021
(Reviewed only, not audited in accordance with generally accepted auditing standards.)
Expressed in Thousands of NTD

| | Note | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
|--|-------|-------------------------------|-------------------------------|
| <u>Cash flow from operating activities</u> | | | |
| Profit before income tax | | \$ 1,168,571 | \$ 937,526 |
| Adjustments: | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation charges on property, plant and equipment | 6(26) | 45,511 | 33,333 |
| Depreciation charges on right-of-use assets | 6(26) | 14,062 | 13,917 |
| Amortization charges on the intangible assets and deferred assets. | 6(26) | 12,125 | 10,542 |
| Depreciation charges on investment property | 6(24) | 686 | 696 |
| Expected loss (gain) on credit impairment | 12(2) | 951 | 147 |
| Loss on decline in (gain from reversal of) market value and obsolete and slow-moving inventories | 6(5) | 99,216 | 5,409 |
| Loss on scrapping inventory | 6(5) | 7,504 | 32 |
| Gain on lease modification | 6(8) | (29) | (2) |
| Interest income | 6(22) | (3,725) | (3,497) |
| Interest expense | 6(25) | 3,331 | 1,446 |
| Compensation cost of employee stock options | 6(16) | 12,043 | 10,075 |
| Shares of losses of associates and joint ventures accounted for using equity method | 6(6) | 2,665 | 4,486 |
| Gains on revaluation of investments accounted for using equity method | 6(24) | - | (2,780) |
| Loss (gain) on disposal of property, plant and equipment | 6(24) | 28 | (440) |
| Gain on disposal of investments | 6(24) | (4,228) | - |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Notes receivable | | (395) | (293) |
| Accounts receivable, net | | (279,535) | (991,646) |
| Accounts receivable -- related parties | | (13) | 59 |
| Other receivables | | 1,256 | 184 |
| Other receivables -- related parties | | 11 | 210 |
| Inventories | | 216,886 | (697,552) |
| Prepayments | | 40,173 | (23,091) |
| Changes in operating liabilities | | | |
| Current contract liabilities | | (2,835) | 10,434 |
| Accounts payable | | (526,829) | 263,754 |
| Accounts payable -- related parties | | (317) | - |
| Other payables | | (2,413) | 16,525 |
| Provisions for liabilities-current | | 5,839 | 5,130 |
| Other current liabilities, others | | 1,519 | 5,198 |
| Cash inflow generated from operations | | 812,058 | (400,198) |
| Interest received | | 3,542 | 3,409 |
| Income taxes paid | | (269,536) | (103,268) |
| Net cash flows from operating activities | | 546,064 | (500,057) |

(Continued)

Innodisk Corporation and Subsidiaries
Consolidated Cash Flow Statement
January 1 to June 30, 2022 and 2021
(Reviewed only, not audited in accordance with generally accepted auditing standards.)
Expressed in Thousands of NTD

| | Note | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
|--|--------|-------------------------------|-------------------------------|
| <u>Cash Flow from Investing Activities</u> | | | |
| Acquisition of financial assets at fair value through other comprehensive income-non-current | 6(2) | (\$ 29,970) | \$ - |
| Increase in current financial assets at amortized cost | | - | (300,000) |
| Disposal of investments accounted for using equity method | | 4,228 | - |
| Acquisition of property, plant and equipment | 6 (31) | (382,362) | (13,933) |
| Disposal of property, plant and equipment | | - | 459 |
| Increase in refundable deposits | | (457) | (632) |
| Decrease in refundable deposits | | 781 | 176 |
| Acquisition of investment property | 6 (10) | (26,236) | - |
| Acquisition of intangible assets | 6 (11) | (4,049) | (3,600) |
| Acquisition of subsidiaries (cash acquired excluded) | 6 (30) | - | (12,882) |
| Increase in the other non-current assets | | (4,807) | (25,606) |
| Net cash used in investing activities | | (442,872) | (356,018) |
| <u>Cash Flow from Financing Activities</u> | | | |
| Proceeds in short-term loans | 6 (32) | - | 83,580 |
| Proceeds from long-term debt | 6 (32) | 268,544 | - |
| Repayment of long-term debt | 6 (32) | (626) | (679) |
| Increase in guarantee deposits received | 6 (32) | 682 | - |
| Decrease in guarantee deposits received | 6 (32) | (599) | (95) |
| Exercise of employee share options | | 110,185 | 110,618 |
| Interest paid | | (3,599) | (1,446) |
| Payment of lease liabilities | 6 (32) | (13,708) | (13,911) |
| Net cash used in financing activities | | 360,879 | 178,067 |
| Effects of changes in foreign exchange rates | | 3,701 | (5,973) |
| Increase (decrease) in cash and cash equivalents | | 467,772 | (683,981) |
| Cash and cash equivalents at beginning of period | | 2,137,891 | 2,260,204 |
| Cash and cash equivalents at end of period | | \$ 2,605,663 | \$ 1,576,223 |

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

Chairman: Chien, Chuan-Sheng

Manager: Chien, Chuan-Sheng

Head of Accounting: Hsiao, Wen-Kuei

Innodisk Corporation and Subsidiaries
Notes to Consolidated Financial Statements
The Six Months Ended June 30, 2022 and 2021

(Reviewed only, not audited in accordance with generally accepted auditing standards.)

Expressed in Thousands of NTD
(Except as otherwise indicated)

1. Company history

- (1) 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.
- (2) 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.

2. The date of authorization for issuance of the financial statements and procedures for authorization

The consolidated financial statements were reported to the Board of Directors on August 5, 2022.

3. Application of new standards, amendments, and interpretations

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”).

New standards, interpretations and amendments endorsed by FSC effective from 2022 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date of issuance by IASB</u> |
|---|---|
| Amendments to IFRS 3, ‘Reference to the conceptual framework’ | January 1, 2022 |
| Amendments to IAS 16, ‘Property, plant and equipment: proceeds before intended use’ | January 1, 2022 |
| Amendments to IAS 37, ‘Onerous contracts—cost of fulfilling a contract’ | January 1, 2022 |
| Annual improvements to IFRS Standards 2018–2020 | January 1, 2022 |

The Group believes that the above standards and interpretations have no significant effect on the Group’s consolidated financial position and performance.

(2) Effect of the new issuances of or amendments to IFRS as endorsed by the FSC but not yet adopted by Group

New standards, interpretations and amendments endorsed by the FSC effective from 2023 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date of issuance by IASB</u> |
|--|---|
| Amendments to IAS 1, 'Disclosure of accounting policies' | January 1, 2023 |
| Amendments to IAS 8, 'Definition of accounting estimates' | January 1, 2023 |
| Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction' | January 1, 2023 |

The Group believes that the above standards and interpretations have no significant effect on the Group's consolidated financial position and performance.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date of issuance by IASB</u> |
|---|---|
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by IASB. |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendment to IFRS 17 "Insurance contracts" | January 1, 2023 |
| Amendment to IFRS 17 -- Initial application of IFRS 17 and IFRS 9 -- "Comparative information" | January 1, 2023 |
| Amendment to IAS 1 "Classification of liabilities as current or non-current" | January 1, 2023 |

The Group believes that the above standards and interpretations have no significant effect on the Group's consolidated financial position and performance.

4. Summary of significant accounting policies

The principal accounting policies 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.

(1) Compliance statement

The consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

(2) Basis of preparation

- (a) Except for the financial assets at fair value through other comprehensive income, the consolidated financial report has been prepared under the historical cost convention.
- (b) 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.

(3) Basis of consolidation

- (a) The basis for preparation of consolidated financial statements
- i. 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.
 - ii. 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.
 - iii. 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.
 - iv. 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.

(b) Subsidiaries included in the consolidated financial statements:

| Name of Investor | Name of Subsidiary | Main Business Activity | Percentage of equity holdings | | | Remarks |
|----------------------|--------------------------|-------------------------------------|-------------------------------|-------------------------|------------------|---------|
| | | | June 30, 2022 | December 31, 2021 | June 30, 2021 | |
| Innodisk Corporation | Innodisk USA Corporation | Industrial embedded storage devices | 100 | 100 | 100 | |

| Name of Investor | Name of Subsidiary | Main Business Activity | Percentage of equity holdings | | | Remarks |
|-------------------------------|-------------------------------|---|-------------------------------|-------------------------|------------------|---------|
| | | | June 30, 2022 | December 31, 2021 | June 30, 2021 | |
| Innodisk Corporation | Innodisk Japan Corporation | After-sales services and support of industrial embedded storage devices | 100 | 100 | 100 | |
| Innodisk Corporation | Innodisk Europe B.V. | After-sales services and support of industrial embedded storage devices | 100 | 100 | 100 | |
| Innodisk Corporation | Innodisk Global-M Corporation | Investment holdings | 100 | 100 | 100 | |
| Innodisk Corporation | Aetina Corporation | Manufacturing and sales of industrial graphics cards | 74.78 | 74.78 | 75.63 | Note 1 |
| Innodisk Global-M Corporation | Innodisk Shenzhen Corporation | Industrial embedded storage devices | 100 | 100 | 100 | |
| Innodisk Europe B.V. | Innodisk France SAS | After-sales services and support of industrial embedded storage devices | 100 | 100 | 100 | |
| Innodisk Corporation | Antzer Tech Co., Ltd. | Electronic parts and components manufacturing. | 100 | 100 | - | Note 2 |
| Aetina Corporation | Aetina USA Corporation | After-sales service and support for industrial graphics cards | 100 | 100 | - | Note 3 |
| Aetina Corporation | Aetina Europe B.V. | After-sales service and support for industrial graphics cards | 100 | - | - | Note 4 |

The financial reports of the major subsidiary, Innodisk USA Corporation and other non-major subsidiaries which are listed as consolidated entities of the consolidated financial statements for the six months ended June 30, 2022 and 2021 have been reviewed by the accountant of the Company.

Note 1: Aetina Corporation was approved by the shareholder meeting on May 4, 2021 to issue 200,000 shares as a capital increase for employees' remuneration and August 16, 2021 was the base date of capital increase, with the Company's shareholding dropping to 74.78%.

Note 2: The Company acquired Antzer Tech Co., Ltd. on May 18, 2021 in the amount of NT\$19,889, raising the shareholding from the original 31.89% to 100%; thus, it has been included in the consolidated entities since the date of acquisition.

Note 3: Aetina Corporation established the subsidiary Aetina USA Corporation in September 2021, and the capital injection has not been completed as of June 30, 2022.

Note 4: Aetina Corporation established the subsidiary Aetina Europe B.V in January 2022, and the capital injection has not been completed as of June 30, 2022.

(c) Subsidiaries not included in the consolidated financial report: none.

(d) Adjustments for subsidiaries with different balance sheet dates: none.

(e) Significant restrictions: none.

(f) Subsidiaries that have non-controlling interests that are material to the Group: none.

(4) 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.

(a) Foreign currency transactions and balances

- i. 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.
- ii. 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.
- iii. 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.
- iv. All foreign exchange gains and losses are presented in the statement of consolidated comprehensive income within "Other gains and losses."

(b) Translation of foreign operations

- i. 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.

- ii. 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.

(5) Classification of current and non-current items

(a) Assets that meet one of the following criteria are classified as current assets:

- i. Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
- ii. Assets held mainly for trading purposes.
- iii. Assets that are expected to be realized within twelve months from the balance sheet date.
- iv. 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.

(b) Liabilities that meet one of the following criteria are classified as current liabilities:

- i. Liabilities that are expected to be paid off within the normal operating cycle.
- ii. Assets held mainly for trading purposes.
- iii. Liabilities that are to be paid off within twelve months from the balance sheet date.
- iv. 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.

(6) Cash equivalents

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.

(7) Financial assets at fair value through other comprehensive income

(a) Financial assets at fair value through other comprehensive income comprise equity securities that are not held for trading, and for which the Group has made an irrevocable

election at initial recognition to recognize changes in fair value in other comprehensive income.

- (b) On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.
 - (c) At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the de-recognized of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
- (8) Financial assets measured at amortized cost
- (a) Refer to those that meet the following criteria at the same time:
 - (a) The objective of the business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows solely represent payments of principal and interest.
 - (b) On a regular way purchase or sale basis, financial assets measured at amortized cost are recognized and de-recognized using trade date accounting.
 - (c) 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.
 - (d) 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.
- (9) Accounts and notes receivable
- (a) 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.
 - (b) The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.
- (10) 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.

(11) 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.

(12) 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.

(13) Inventories

Inventories are measured at the lower of cost or net realizable value, and the cost is determined by the 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. 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 the estimated costs of completion and the estimated costs necessary to make the sale.

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

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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.

- (e) 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.
 - (f) When the Group loses its significant influence on an associate, the remaining investment in said associate is re-measured at fair value, and the difference between the fair value and the book value is recognized as profit or loss in the current period.
 - (g) When the Group disposes of an associate, if it loses the significant influence on the associate, all amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses the significant influence on an associate, all gains or losses previously recognized in other comprehensive income in relation to the associate should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of. If the Group still has a significant influence on the associate, only the amount recognized in other comprehensive income previously will be transferred out in the manner above on a pro-rata basis.
 - (h) When the Group disposes of an associate, if it loses the significant influence on the associate accordingly, the capital surplus related to the associate will be reclassified to profit or loss; if it still has a significant influence on the associate, the capital surplus will be reclassified to profit or loss according to the percentage of the disposal.
- (15) Property, plant and equipment
- (a) Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
 - (b) 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.

- (c) 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.
- (d) 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 construction | 2 to 50 years |
| Machines and equipment | 2 to 8 years |
| Office equipment | 2 to 6 years |
| Others | 2 to 6 years |

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

- (a) 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.
- (b) 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.

- (c) 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.

- (d) For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use asset and remeasure the lease liability to reflect the partial or full termination of the lease, and recognizes the difference in profit or loss.

(17) 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.

(18) Intangible assets

(a) 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.

(b) Trademarks and patent rights

Trademarks and patent rights acquired as a result of a business combination are recognized at fair value on the acquisition date. Trademarks and patent rights are assets with a finite useful life and are amortized at the estimated useful life of 3 years on a straight line basis.

(c) Goodwill

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

(19) Impairment of non-financial assets

(a) 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.

(b) 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.

(c) 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.

(20) Borrowings

Refers to long- and short-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.

(21) Accounts and notes payable

- (a) 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.
- (b) The short-term accounts and notes payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(22) De-recognition of financial liabilities

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

(23) 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.

(24) Provisions

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.

(25) Employee benefits

(a) 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.

(b) 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.

(c) 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 are accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(26) Employee share-based payment

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.

(27) Income tax

- (a) 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.
- (b) 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.
- (c) 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.

- (d) 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.
- (e) 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.
- (f) The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(28) 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.

(29) 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.

(30) Revenue recognition

- (a) 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.

- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.

(31) 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.

(32) Business combinations

- (a) The Group adopts the acquisition method to account for business combinations. The consideration transferred for a combination is measured as the fair value of the assets transferred, the liabilities incurred or assumed, and the equity instruments issued at the acquisition. The consideration for the transfer includes the fair value of any assets and liabilities arising from contingent consideration agreements. All acquisition-related costs related are expensed as incurred. The identifiable assets acquired and liabilities assumed in a business combination are measured at fair value at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value

or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.

- (b) The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognized and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognized directly in profit or loss on the acquisition date.

(33) 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.

5. 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:

(1) Important judgments adopted by the accounting policies

The critical judgments adopted in the Group's accounting policies have been assessed to be free from significant uncertainty.

(2) 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 June 30, 2022, information relating to the book value of the Group's Inventories is provided in Note 6 (5).

6. Details of Significant Accounts

(1) Cash and cash equivalents

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|---------------------------------------|---------------------|----------------------|---------------------|
| | <hr/> | <hr/> | <hr/> |
| Cash: | | | |
| Cash on hand and revolving funds | \$ 729 | \$ 921 | \$ 973 |
| Checking accounts and demand deposits | 2,018,934 | 1,971,470 | 891,750 |
| Cash equivalents: | | | |
| Time deposits | 586,000 | 165,500 | 683,500 |
| | <u>\$ 2,605,663</u> | <u>\$ 2,137,891</u> | <u>\$ 1,576,223</u> |

- (a) 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.
- (b) The Group has no cash and cash equivalents pledged to others.

(2) Financial assets at fair value through other comprehensive income

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-------------------------|------------------|----------------------|---------------|
| | <hr/> | <hr/> | <hr/> |
| Non-current items: | | | |
| Equity instruments | | | |
| Listed preferred stocks | \$ 29,970 | \$ - | \$ - |
| Valuation adjustment | (2,731) | - | - |
| | <u>\$ 27,239</u> | <u>\$ -</u> | <u>\$ -</u> |

- (a) The Group has elected to classify strategic investments as financial assets at fair value through other comprehensive income.
- (b) Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|--|-------------------------------|-------------------------------|
| | <hr/> | <hr/> |
| <u>Equity instruments at fair value through other comprehensive income</u> | | |
| Fair value change recognized in other comprehensive income | (\$ 700) | \$ - |
| | <hr/> | <hr/> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| | <hr/> | <hr/> |
| <u>Equity instruments at fair value through other comprehensive income</u> | | |
| Fair value change recognized in other comprehensive income | (\$ 2,731) | \$ - |

- (c) The Group has no financial assets at fair value through other comprehensive income pledged to others.
- (d) Information relating to fair value is provided in Note 12 (3).

(3) Financial assets measured at amortized cost

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|---|---------------|----------------------|---------------|
| Current items: | | | |
| Time deposits due in more than three months | \$ 600,000 | \$ 600,000 | \$ 700,000 |
| Non-current items: | | | |
| Pledged time deposits | \$ 10,706 | \$ 10,706 | \$ 7,706 |

(a) Amounts recognized in interest income in relation to financial assets at amortized are listed in Note 6 (22).

(b) Details of the Group's financial assets at amortized cost pledged to others as collateral are provided in Note 8.

(4) Notes and accounts receivable

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------------------|---------------------|---------------------|---------------------|
| Notes receivable | \$ 2,381 | \$ 1,986 | \$ 550 |
| Less: Loss allowance | - | - | - |
| | <u>\$ 2,381</u> | <u>\$ 1,986</u> | <u>\$ 550</u> |
| Accounts receivable | \$ 1,836,617 | \$ 1,557,082 | \$ 1,874,267 |
| Account receivable - Related parties | 15 | 2 | 13 |
| | <u>1,836,632</u> | <u>1,557,084</u> | <u>1,874,280</u> |
| Less: Loss allowance | (3,489) | (2,445) | (1,371) |
| | <u>\$ 1,833,143</u> | <u>\$ 1,554,639</u> | <u>\$ 1,872,909</u> |

(a) For the aging analysis and the related credit risk information on notes and accounts receivable, please refer to Note 12 (2).

(b) As of June 30, 2022, December 31, 2021 and June 30, 2021, notes receivable and accounts receivable were from contracts with customers. The balances of notes and accounts receivable as of January 1, 2021 were NT\$881,318.

(c) The Group does not hold any collateral for the aforementioned notes and accounts receivable.

(5) Inventories

| | June 30, 2022 | | |
|-------------------|---------------------|--------------------------------------|---------------------|
| | Cost | Loss allowance for falling prices | Book value |
| Raw materials | \$ 1,005,238 | (\$ 277,609) | \$ 727,629 |
| Work in process | 291,414 | (13,502) | 277,912 |
| Finished products | 314,784 | (26,593) | 288,191 |
| Products | 54,411 | (7,400) | 47,011 |
| | <u>\$ 1,665,847</u> | <u>(\$ 325,104)</u> | <u>\$ 1,340,743</u> |

| | December 31, 2021 | | |
|-------------------|---------------------|--------------------------------------|---------------------|
| | Cost | Loss allowance for falling prices | Book value |
| Raw materials | \$ 1,314,895 | (\$ 190,531) | \$ 1,124,364 |
| Work in process | 222,201 | (15,208) | 206,993 |
| Finished products | 314,109 | (15,341) | 298,768 |
| Products | 39,032 | (4,808) | 34,224 |
| | <u>\$ 1,890,237</u> | <u>(\$ 225,888)</u> | <u>\$ 1,664,349</u> |

| | June 30, 2021 | | |
|-----------------|---------------------|--------------------------------------|---------------------|
| | Cost | Loss allowance for falling prices | Book value |
| Raw materials | \$ 1,052,403 | (\$ 71,148) | \$ 981,255 |
| Work in process | 263,590 | (14,503) | 249,087 |
| Finished goods | 211,109 | (9,842) | 201,267 |
| Merchandises | 60,783 | (3,411) | 57,372 |
| | <u>\$ 1,587,885</u> | <u>(\$ 98,904)</u> | <u>\$ 1,488,981</u> |

(a) None of the above inventories are provided with pledged collaterals.

(b) The cost of inventories recognized as losses by the Group.

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|---|-------------------------------|-------------------------------|
| Cost of inventory sold | \$ 1,889,397 | \$ 1,984,887 |
| Loss on decline in (gain from reversal of) market value and obsolete and slow-moving inventories | 13,211 | 5,347 |
| Loss on scrapping of inventory | 7,302 | 28 |
| Others | 9,167 | 6,634 |
| | <u>\$ 1,919,077</u> | <u>\$ 1,996,896</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Cost of inventory sold | \$ 3,650,978 | \$ 3,368,928 |
| Loss on decline in (gain from reversal of) market value and obsolete and slow-moving inventories | 99,216 | 5,409 |
| Loss on scrapping of inventory | 7,504 | 32 |
| Others | 15,709 | 11,244 |
| | <u>\$ 3,773,407</u> | <u>\$ 3,385,613</u> |

(6) Investments accounted for using equity method

| | June 30, 2022 | | December 31, 2021 | | June 30, 2021 | |
|-------------------------|------------------|----------------------------|-------------------|----------------------------|------------------|----------------------------|
| | Amount | Shareholding percentage | Amount | Shareholding percentage | Amount | Shareholding percentage |
| Affiliates: | | | | | | |
| AccelStor Inc. | \$ - | 0.00% | \$ - | 40.37% | \$ - | 40.37% |
| Millitronic Co., Ltd. | 8,733 | 33.55% | 10,501 | 33.55% | 13,542 | 33.55% |
| Sysinno Technology Inc. | 7,340 | 43.00% | 8,237 | 43.00% | 8,564 | 43.00% |
| | <u>\$ 16,073</u> | | <u>\$ 18,738</u> | | <u>\$ 22,106</u> | |

For the three months ended June 30, 2022 and 2021, and the six months ended June 30, 2022 and 2021, the Group's share of (losses) profits from affiliates recognized under the equity

method was NT (\$939), (\$1,002), (\$2,665), and (\$4,486), respectively, based on the financial statements reviewed by the Company's independent accountants.

(a) AccelStor Inc. had been completion of the liquidation as of May 19, 2022.

(b) As of June 30, 2022 and December 31, 2021 and June 30, 2021, the Group had no significant affiliates, and the aggregate book values of separate non-significant affiliates were NT\$16,073, NT\$18,738 and NT\$22,106, respectively. Their operating results are summarized as follows:

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|--|-------------------------------|-------------------------------|
| Current net loss from continuing operations | (\$ 939) | (\$ 1,002) |
| Other comprehensive income or loss (net after tax) | - | - |
| Total comprehensive profit and loss for the period | <u>(\$ 939)</u> | <u>(\$ 1,002)</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Current net loss from continuing operations | (\$ 2,665) | (\$ 4,486) |
| Other comprehensive income or loss (net after tax) | - | - |
| Total comprehensive profit and loss for the period | <u>(\$ 2,665)</u> | <u>(\$ 4,486)</u> |

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

(7) Property, plant and equipment

| | 2022 | | | | | | |
|--|-------------------|----------------------------------|------------------------------|---------------------|---|------------------|---------------------|
| | Land | Buildings and construction | Machines and equipment | Office equipment | Unfinished construction and equipment pending acceptance | Others | Total |
| <u>January 1</u> | | | | | | | |
| Cost | \$ 624,621 | \$ 910,262 | \$ 260,429 | \$ 36,098 | \$ 55,500 | \$ 81,976 | \$ 1,968,886 |
| Accumulated depreciation and impairments | - | (121,302) | (154,334) | (24,997) | - | (51,467) | (352,100) |
| | <u>\$ 624,621</u> | <u>\$ 788,960</u> | <u>\$ 106,095</u> | <u>\$ 11,101</u> | <u>\$ 55,500</u> | <u>\$ 30,509</u> | <u>\$ 1,616,786</u> |
| January 1 | \$ 624,621 | \$ 788,960 | \$ 106,095 | \$ 11,101 | \$ 55,500 | \$ 30,509 | \$ 1,616,786 |
| Addition | 147,090 | 90,489 | 10,037 | 10,869 | 98,920 | 12,139 | 369,544 |
| Reclassification | 45,416 | 29,308 | 47,709 | 14,199 | (49,293) | 1,583 | 88,922 |
| Disposal | - | - | - | (28) | - | - | (28) |
| Depreciation expense | - | (15,032) | (16,675) | (8,729) | - | (5,075) | (45,511) |
| Net exchange difference | 879 | (2,534) | 3 | 16 | - | 15 | 3,447 |
| June 30 | <u>\$ 818,006</u> | <u>\$ 896,259</u> | <u>\$ 147,169</u> | <u>\$ 27,428</u> | <u>\$ 105,127</u> | <u>\$ 39,171</u> | <u>\$ 2,033,160</u> |
| <u>June 30</u> | | | | | | | |
| Cost | \$ 818,006 | \$ 1,025,951 | \$ 318,187 | \$ 66,665 | \$ 105,127 | \$ 94,971 | \$ 2,428,907 |
| Accumulated depreciation and impairments | - | (129,692) | (171,018) | (39,237) | - | (55,800) | (395,747) |
| | <u>\$ 818,006</u> | <u>\$ 896,259</u> | <u>\$ 147,169</u> | <u>\$ 27,428</u> | <u>\$ 105,127</u> | <u>\$ 39,171</u> | <u>\$ 2,033,160</u> |

| | 2021 | | | | | |
|---|-------------------|--------------------------|-------------------------|------------------|------------------|---------------------|
| | Land | Buildings and structures | Machinery and equipment | Office equipment | Others | Total |
| January 1 | | | | | | |
| Cost | \$ 528,288 | \$ 820,165 | \$ 227,965 | \$ 33,827 | \$ 63,622 | \$ 1,673,867 |
| Accumulated depreciation and impairment | - | (101,849) | (133,212) | (19,137) | (44,675) | (298,873) |
| | <u>\$ 528,288</u> | <u>\$ 718,316</u> | <u>\$ 94,753</u> | <u>\$ 14,690</u> | <u>\$ 18,947</u> | <u>\$ 1,374,994</u> |
| January 1 | \$ 528,288 | \$ 718,316 | \$ 94,753 | \$ 14,690 | \$ 18,947 | \$ 1,374,994 |
| Additions | - | 1,256 | 2,246 | 1,641 | 8,790 | 13,933 |
| Acquired through business combination | - | - | - | 59 | 123 | 182 |
| Reclassifications | - | - | 2,550 | - | 1,600 | 4,150 |
| Disposal | - | (9) | - | (10) | - | (19) |
| Depreciation expense | - | (12,710) | (13,906) | (2,986) | (3,731) | (33,333) |
| Net exchange difference | (511) | (2,466) | (2) | (11) | (27) | (3,017) |
| June 30 | <u>\$ 527,777</u> | <u>\$ 704,387</u> | <u>\$ 85,641</u> | <u>\$ 13,383</u> | <u>\$ 25,702</u> | <u>\$ 1,356,890</u> |
| June 30 | | | | | | |
| Cost | \$ 527,777 | \$ 819,059 | \$ 226,110 | \$ 35,500 | \$ 74,071 | \$ 1,682,517 |
| Accumulated depreciation and impairment | - | (114,672) | (140,469) | (22,117) | (48,369) | (325,627) |
| | <u>\$ 527,777</u> | <u>\$ 704,387</u> | <u>\$ 85,641</u> | <u>\$ 13,383</u> | <u>\$ 25,702</u> | <u>\$ 1,356,890</u> |

- (a) Please refer to note 8 for the information on the guarantee provided by the Group with its property, plant and equipment as of June 30, 2022.
- (b) The Group had not provided property, plant and equipment as pledged collaterals during the three months ended June 30, 2022 and 2021.
- (c) The abovementioned property, plant and equipment are all held and used by the Group.
- (d) As of June 30, 2022, December 31, 2021, and June 30, 2021, the Group's prepayments for business facilities (recognized in "Other non-current assets") that have not been reclassified were NT \$4,807 NT \$68,802, and NT \$24,737, respectively.

(8) Leasing arrangements - lessee

- (a) 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 9 years. The land for the plant site in Taiwan is leased from Hsinchu Science Park, and the lease-option-to-buy contract period is 20 years, the estimated 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 collateral.

(b) The carrying amount of right-of-use assets and the depreciation charge are as follows:

| | Land | Buildings | Company vehicles | Total |
|---|-------------------|------------------|---------------------|-------------------|
| January 1, 2022 | \$ 178,850 | \$ 23,968 | \$ 3,283 | \$ 206,101 |
| Addition | 3,020 | 14,677 | 327 | 18,024 |
| Early termination of leases | - | (5,376) | - | (5,376) |
| Depreciation expense | (3,287) | (9,848) | (927) | (14,062) |
| Effects of changes in foreign exchange rates | - | 56 | 13 | 43 |
| June 30, 2022 | <u>\$ 178,583</u> | <u>\$ 23,477</u> | <u>\$ 2,670</u> | <u>\$ 204,730</u> |
| | Land | Buildings | Company vehicles | Total |
| January 1, 2021 | \$ 185,386 | \$ 25,154 | \$ 2,816 | \$ 213,356 |
| Addition | - | 12,288 | 2,975 | 15,263 |
| Early termination of leases | - | (300) | - | 300 |
| Depreciation expense | (3,268) | (9,485) | (1,164) | (13,917) |
| Effects of changes in foreign exchange rates | - | (363) | (113) | (476) |
| June 30, 2021 | <u>\$ 182,118</u> | <u>\$ 27,294</u> | <u>\$ 4,514</u> | <u>\$ 213,926</u> |

(c) The information on profit and loss items related to lease contracts is as follows:

| | | |
|---|-------------------------------|-------------------------------|
| Items affecting current profit and loss | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
| <u>Interest expenses on lease liabilities</u> | \$ 629 | \$ 654 |
| Lease modification loss (gain) | - | (2) |
| Items affecting current profit and loss | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| <u>Interest expenses on lease liabilities</u> | \$ 1,246 | \$ 1,298 |
| Lease modification loss (gain) | (29) | (2) |

(d) In addition to the cash outflow for lease related expenses mentioned in Note 6 (8) (c). The cash outflows due to principal repayment of lease liabilities for the six months ended June 30, 2022 and 2021 are provided in Note 6 (32).

(e) 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.

(9) Leasing arrangements - lessor

(a) 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 Company usually requires lessees not to sublet, sublease or pledge all or part of the underlying leased assets.

(b) The gain recognized by the Group based on the operating lease contracts are provide in Note 6 (23).

(c) The maturity analysis of the lease payments under the operating leases is as follows:

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|------|----------------------|--------------------------|----------------------|
| 2021 | \$ - | \$ - | \$ 2,248 |
| 2022 | 3,169 | 5,196 | 1,259 |
| 2023 | 2,254 | 1,082 | 534 |
| 2024 | 332 | - | - |
| | <u>\$ 5,755</u> | <u>\$ 6,278</u> | <u>\$ 4,041</u> |

(10) Investment property

| | <u>2022</u> | | |
|---|------------------|---------------------------------------|-------------------|
| | <u>Land</u> | <u>Buildings and construction</u> | <u>Total</u> |
| <u>January 1</u> | | | |
| Cost | \$ 73,690 | \$ 37,316 | \$ 111,006 |
| Accumulated depreciation and impairments | - | (11,655) | (11,655) |
| | <u>\$ 73,690</u> | <u>\$ 25,661</u> | <u>\$ 99,351</u> |
| January 1 | \$ 73,690 | \$ 25,661 | \$ 99,351 |
| Additions | 16,343 | 9,893 | 26,236 |
| Reclassifications | (3,590) | (1,821) | (5,411) |
| Depreciation expense | - | (331) | (686) |
| Net exchange difference | 47 | 131 | 106 |
| June 30 | <u>\$ 86,396</u> | <u>\$ 33,533</u> | <u>\$ 119,384</u> |
| <u>June 30</u> | | | |
| Cost | \$ 86,396 | \$ 43,952 | \$ 130,500 |
| Accumulated depreciation and impairments | - | (10,419) | (10,746) |
| | <u>\$ 86,396</u> | <u>\$ 33,533</u> | <u>\$ 119,384</u> |

| | <u>2021</u> | | |
|--|------------------|-------------------------------------|-------------------|
| | <u>Land</u> | <u>Buildings and structures</u> | <u>Total</u> |
| <u>January 1</u> | | | |
| Cost | \$ 74,337 | \$ 38,244 | \$ 112,581 |
| Accumulated depreciation and impairment | - | (10,365) | (10,365) |
| | <u>\$ 74,337</u> | <u>\$ 27,879</u> | <u>\$ 102,216</u> |
| January 1 | \$ 74,337 | \$ 27,879 | \$ 102,216 |
| Depreciation expense | - | (696) | (696) |
| Net exchange difference | (327) | (427) | (754) |
| June 30 | <u>\$ 74,010</u> | <u>\$ 26,756</u> | <u>\$ 100,766</u> |
| <u>June 30</u> | | | |
| Cost | \$ 74,010 | \$ 37,775 | \$ 111,785 |
| Accumulated depreciation and impairment | - | (11,019) | (11,019) |
| | <u>\$ 74,010</u> | <u>\$ 26,756</u> | <u>\$ 100,766</u> |

(a) Rental income and direct operating expenses of investment real estate:

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|--|-------------------------------|-------------------------------|
| Rental income from investment property | \$ 1,599 | \$ 1,276 |
| Direct operating expenses incurred by investment property that generates rental income for the period | \$ 456 | \$ 720 |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Rental income from investment property | \$ 3,511 | \$ 2,572 |
| Direct operating expenses incurred by investment property that generates rental income for the period | \$ 884 | \$ 974 |

(b) The fair value of the investment property held by the Group as of June 30, 2022, December 31, 2021 and June 30, 2021 were NT\$171,835, NT\$155,848, and NT\$134,685, 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.

(c) Detailed of the Group had provided investment property as pledged collaterals are provided in Note 8.

(d) The Group had no capitalization of interest for investment property during the six months ended June 30, 2022 and 2021.

(11) Intangible assets

| | 2022 | | | | |
|---|-----------------|----------------------|---------------------|------------------|------------------|
| | Patent | Computer software | Trademark rights | Goodwill | Total |
| <u>January 1</u> | | | | | |
| Cost | \$ 6,000 | \$ 77,776 | \$ 3,000 | \$ 11,386 | \$ 98,162 |
| Accumulated amortization and impairments | (1,333) | (49,025) | (667) | - | (51,025) |
| | <u>\$ 4,667</u> | <u>\$ 28,751</u> | <u>\$ 2,333</u> | <u>\$ 11,386</u> | <u>\$ 47,137</u> |
| January 1 | \$ 4,667 | \$ 28,751 | \$ 2,333 | \$ 11,386 | \$ 47,137 |
| Additions - acquired separately | - | 4,049 | - | - | 4,049 |
| Amortization expenses | (1,000) | (10,625) | (500) | - | (12,125) |
| Net exchange difference | - | - | - | 727 | 727 |
| June 30 | <u>\$ 3,667</u> | <u>\$ 22,175</u> | <u>\$ 1,833</u> | <u>\$ 12,113</u> | <u>\$ 39,788</u> |
| <u>June 30</u> | | | | | |
| Cost | \$ 6,000 | \$ 71,273 | \$ 3,000 | \$ 12,113 | \$ 92,386 |
| Accumulated amortization and impairments | (2,333) | (49,098) | (1,167) | - | (52,598) |
| | <u>\$ 3,667</u> | <u>\$ 22,175</u> | <u>\$ 1,833</u> | <u>\$ 12,113</u> | <u>\$ 39,788</u> |

| | 2021 | | | | |
|--|-----------------|-------------------|------------------|------------------|------------------|
| | Patent | Computer software | Trademark rights | Goodwill | Total |
| <u>January 1</u> | | | | | |
| Cost | \$ - | \$ 53,213 | \$ - | \$ 11,671 | \$ 64,884 |
| Accumulated amortization and impairments | - | (35,957) | - | - | (35,957) |
| | <u>\$ -</u> | <u>\$ 17,256</u> | <u>\$ -</u> | <u>\$ 11,671</u> | <u>\$ 28,927</u> |
| January 1 | \$ - | \$ 17,256 | \$ - | \$ 11,671 | \$ 28,927 |
| Additions - acquired separately | - | 3,600 | - | - | 3,600 |
| Additions- business combinations | 6,000 | - | 3,000 | - | 9,000 |
| Amortization expenses | (333) | (5,256) | (167) | - | (5,756) |
| Net exchange difference | - | - | - | (220) | (220) |
| June 30 | <u>\$ 5,667</u> | <u>\$ 15,600</u> | <u>\$ 2,833</u> | <u>\$ 11,451</u> | <u>\$ 27,295</u> |
| <u>June 30</u> | | | | | |
| Cost | \$ 6,000 | \$ 56,813 | \$ 3,000 | \$ 11,451 | \$ 77,264 |
| Accumulated amortization and impairments | (333) | (41,213) | (167) | - | (41,713) |
| | <u>\$ 5,667</u> | <u>\$ 15,600</u> | <u>\$ 2,833</u> | <u>\$ 11,451</u> | <u>\$ 35,551</u> |

(a) Breakdown of intangible assets amortization:

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|-------------------------------------|----------------------------|----------------------------|
| Operating costs | \$ 419 | \$ 289 |
| Selling expenses | 44 | 46 |
| General and administrative expenses | 2,529 | 1,674 |
| Research and development expenses | 3,072 | 1,262 |
| | <u>\$ 6,064</u> | <u>\$ 3,271</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Operating costs | \$ 834 | \$ 543 |
| Selling expenses | 93 | 75 |
| General and administrative expenses | 5,054 | 2,867 |
| Research and development expenses | 6,144 | 2,271 |
| | <u>\$ 12,125</u> | <u>\$ 5,756</u> |

(b) Goodwill is allocated to cash-generating units:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------|------------------|-------------------|------------------|
| Innodisk USA Corporation | \$ 10,582 | \$ 9,855 | \$ 9,920 |
| Others | 1,531 | 1,531 | 1,531 |
| | <u>\$ 12,113</u> | <u>\$ 11,386</u> | <u>\$ 11,451</u> |

(c) 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.

- (d) As of June 30, 2022, December 31, 2021 and June 30, 2021, the Group had not provided intangible assets as pledged collaterals.

(12) Other payables

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|---|---------------------|-------------------|-------------------|
| Payroll and bonus payable | \$ 177,645 | \$ 259,309 | \$ 130,662 |
| Employees' bonuses and directors' and supervisors' remuneration payable | 203,879 | 130,796 | 132,120 |
| Accrued expenses | 69,247 | 69,540 | 53,674 |
| Payables on equipment | 3,530 | 16,348 | - |
| Cash dividends payable | 967,217 | - | - |
| Others | 16,362 | 13,387 | 18,818 |
| | <u>\$ 1,437,880</u> | <u>\$ 489,380</u> | <u>\$ 335,274</u> |

(13) Short-term borrowings

June 30, 2022 and December 31, 2021: None.

| Type of borrowings | Borrowing period and payment method | Range of interest rate | Collateral | June 30, 2021 |
|--|--|------------------------|------------|---------------|
| Bank borrowings | | | | |
| Innodisk Corporation | | | | |
| E.Sun Commercial Bank, Ltd. credit loans | June 30, 2021 to July 30, 2021. The principal and interest shall be paid off in a lump sum upon maturity of the loans. | 0.76% | No | \$ 83,580 |

Please refer to Note 6 (25) for the interest expense recognized in profit or loss by the Group.

(14) Long-term loans

| Type of borrowing | Borrowing period and payment method | Range of interest rate | Collateral | June 30, 2022 |
|---|---|------------------------|------------|---------------|
| Borrowing with installment repayments | | | | |
| Innodisk Corporation | | | | |
| Chinatrust Commercial Bank secured loan | The borrowing period is from January 7, 2022 to January 7, 2042; the grace period for the principal is two years, and the interest is paid monthly. | 0.82% | Note 8 | \$ 67,343 |
| Chinatrust Commercial Bank secured loan | The borrowing period is from January 13, 2022 to January 13, 2042; the grace period for the principal is | 0.82% | Note 8 | 112,657 |

| Type of borrowing | Borrowing period and payment method | Range of interest rate | Collateral | June 30, 2022 |
|---|---|------------------------|------------|---------------|
| Chinatrust Commercial Bank unsecured loan | two years, and the interest is paid monthly. The borrowing period is from January 13, 2022 to January 13, 2042; the grace period for the principal is two years, and the interest is paid monthly. | 1.09% | No | 88,544 |
| Innodisk Europe B.V. Chinatrust Commercial Bank credit loan | The borrowing period is from December 10, 2018 to December 10, 2023; the principal is amortized annually and the interest is paid quarterly. | 1.15% | No | \$ 10,868 |
| Chinatrust Commercial Bank credit loan | The borrowing period is from March 15, 2019 to March 15, 2024; the principal is amortized annually and the interest is paid quarterly. | 1.15% | No | 4,347 |
| Aetina Corporation Chinatrust Commercial Bank secured loan | The borrowing period is from November 24, 2021 to November 24, 2041; the grace period for the principal is two years, and the interest is paid monthly. | 0.94% | Note 8 | 90,000 |
| Chinatrust Commercial Bank unsecured loan | The borrowing period is from November 24, 2021 to November 24, 2041; the grace period for the principal is two years, and the interest is paid monthly. | 1.09% | No | 36,680 |
| | | | | 410,439 |
| Less: Long-term loans due within one year or one business cycle | | | | (2,174) |
| | | | | \$ 408,265 |

| Type of borrowing | Borrowing period and payment method | Range of interest rate | Collateral | December 31, 2021 |
|---|--|------------------------|------------|-------------------|
| Borrowing with installment repayments Innodisk Europe B.V. | | | | |
| Chinatrust Commercial Bank credit loan | The borrowing period is from December 10, 2018 to December 10, 2023; the principal is amortized annually and the interest is paid quarterly. | 1.15% | No | \$ 10,962 |
| Chinatrust Commercial Bank credit loan | The borrowing period is from March 15, 2019 to March 15, 2024; the principal is amortized annually and the interest is | 1.15% | No | 5,012 |

| | | | | |
|--|--------------------------------|-------|--------|------------|
| | paid quarterly. | | | |
| Aetina Corporation | | | | |
| Chinatrust | The borrowing period is | 0.94% | Note 8 | 90,000 |
| Commercial Bank | from November 24, 2021 to | | | |
| secured loan | November 24, 2041; the | | | |
| | grace period for the principal | | | |
| | is two years, and the interest | | | |
| | is paid monthly. | | | |
| Chinatrust | The borrowing period is | 1.09% | No | 36,680 |
| Commercial Bank | from November 24, 2021 to | | | |
| unsecured loan | November 24, 2041; the | | | |
| | grace period for the principal | | | |
| | is two years, and the interest | | | |
| | is paid monthly. | | | |
| | | | | 142,654 |
| Less: Long-term loans due within one year or one | | | | (2,193) |
| business cycle | | | | \$ 140,461 |

| Type of borrowing | Borrowing period and payment method | Range of interest rate | Collateral | June 30, 2021 |
|---|-------------------------------------|------------------------|------------|---------------|
| Borrowing with installment repayments | | | | |
| Innodisk Europe B.V. | | | | |
| Chinatrust | The borrowing period is from | 1.15% | No \$ | 13,260 |
| Commercial Bank | December 10, 2018 to December 10, | | | |
| credit loan | 2023; the principal is amortized | | | |
| | annually and the interest is paid | | | |
| | quarterly. | | | |
| Chinatrust | The borrowing period is from March | 1.15% | No | 5,304 |
| Commercial Bank | 15, 2019 to March 15, 2024; the | | | |
| credit loan | principal is amortized annually and | | | |
| | the interest is paid quarterly. | | | |
| | | | | 18,564 |
| Less: Long-term loans due within one year or one business | | | | (2,321) |
| cycle | | | | \$ 16,243 |

Please refer to Note 6 (25) for the interest expense recognized in profit or loss by the Group.

(15) Pensions

- (a) 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.
- (b) 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.

- (c) 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.
- (d) During the three months ended June 30, 2022 and 2021, and the six months ended June 30, 2022 and 2021, the pension costs recognized by the Group in accordance with the pension measures were NT\$8,356, NT\$7,734, NT\$19,410, and NT\$15,929, respectively.

(16) Share-based payment

- (a) During the six months ended June 30, 2022 and 2021, the Company's share-based payment agreements were as follows:

- i. 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.

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

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

- ii. The board resolution on July 6, 2022 determined the first employee stock option plan of 2022 and established the stock option method. A total of 3,500,000 units of employee stock options was to be issued, and each unit of stock option subscribed to 1 share, and measures became effective on July 26, 2022.

- (b) The detailed information of the above share-based payment is as follows:

| | January 1 to June 30, 2022 | | January 1 to June 30, 2021 | |
|--|---|--|---|--|
| | Number of stock options (thousand shares) | Weighted average exercise price (NT\$) | Number of stock options (thousand shares) | Weighted average exercise price (NT\$) |
| Options outstanding as of January 1 | 1,628 | 89.80 | 3,000 | 92.80 |
| Stock options granted in this period | - | - | - | - |
| Free allotment of additional shares or adjustment of the number of subscribed shares | - | - | - | - |
| Stock options foregone in this period | (100) | 89.80 | (28) | 92.80 |

| | | | | |
|---|------------|-------|--------------|-------|
| Stock options exercised in this period | (1,227) | 89.80 | (1,192) | 92.80 |
| Stock options expired in this period | - | - | - | - |
| Stock options outstanding as of December 31 | <u>301</u> | 89.80 | <u>1,780</u> | 92.80 |
| Stock options exercisable as of December 31 | <u>301</u> | | <u>280</u> | |

(c) The weighted-average share price of the stock options exercised during the six months ended June 30, 2022, and 2021 were NT\$199.22 and NT\$171.84 on the date of exercise.

(d) The expiration date and exercise price of stock options outstanding at the balance sheet date are as follows:

| | | June 30, 2022 | |
|---------------------|------------------|-----------------------------|-----------------------|
| Approved issue date | Expiration date | Number of shares (thousand) | Exercise price (NT\$) |
| January 29, 2019 | January 29, 2023 | 301 | 89.80 |

| | | December 31, 2021 | |
|---------------------|------------------|-----------------------------|-----------------------|
| Approved issue date | Expiration date | Number of shares (thousand) | Exercise price (NT\$) |
| January 29, 2019 | January 29, 2023 | 1,628 | 89.80 |

| | | June 30, 2021 | |
|---------------------|------------------|-----------------------------|-----------------------|
| Approved issue date | Expiration date | Number of shares (thousand) | Exercise price (NT\$) |
| January 29, 2019 | January 29, 2023 | 1,780 | 92.80 |

(e) 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 plan | 2019.1.29 | 105.50 | 105.50 | 34.34% | 4 years | NA | 0.61% | 26.4442 |

(f) Expenses incurred on share-based payment transactions are shown below:

| | | |
|-----------------|----------------------------|----------------------------|
| Equity delivery | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
| | \$ - | \$ 5,863 |
| Equity delivery | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| | \$ 12,043 | \$ 10,075 |

(17) Provisions

| | 2022 | 2021 |
|--|------------------|------------------|
| Balance on January 1 | \$ 59,851 | \$ 61,444 |
| Provision for liabilities used in the period | (6,783) | (4,396) |
| Provision for liabilities added in this period | 12,622 | 9,526 |
| Balance on June 30 | <u>\$ 65,690</u> | <u>\$ 66,574</u> |

The analysis of provisions is as follows:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|---------|------------------|----------------------|------------------|
| Current | <u>\$ 65,690</u> | <u>\$ 59,851</u> | <u>\$ 66,574</u> |

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.

(18) Share capital / Stock dividends to be distributed / Events after the balance sheet date

- (a) As of June 30, 2022, the Company's authorized capital was NT\$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 NT\$838,950 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)

| | 2022 | 2021 |
|------------------------------------|-------------------|-------------------|
| January 1 | 82,668,040 | 81,324,040 |
| Exercise of employee share options | 1,227,000 | 1,192,000 |
| June 30 | <u>83,895,040</u> | <u>82,516,040</u> |

- (b) The shareholders' meeting resolved that the 2021 unappropriated retained earnings of \$24,801 would be capitalized to issue new shares on May 31, 2022. The base date for capitalization was August 6, 2022; therefore, the new shares were classified as "stock dividends to be distributed" under the share capital on June 30, 2022.
- (c) For the six months ended June 30, 2022, the common shares issued due to the exercise of employee stock options were 1,227,000 shares, respectively. As of June 30, 2022, 172,500 shares had not been registered for share capital changes.
- (d) For the six months ended June 30, 2021, the common shares issued due to the exercise of employee stock options were 1,192,000 shares that had been registered for share capital changes.

(19) 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.

| 2022 | | | | | | |
|---|---------------------|--|--|------------------------------|-----------------|--------------------|
| | Issue premium | Difference between the price of acquiring or disposing of equities of a subsidiary and the book value | Recognition of changes in ownership in subsidiaries | Employee stock options | Others | Total |
| January 1 | \$ 1,157,494 | 802 | 24,538 | \$ 30,321 | \$ 674 | \$1,213,829 |
| Share-based payment | - | - | - | 12,043 | - | 12,043 |
| Exercise of employee share options | 127,971 | - | - | (30,056) | - | 97,915 |
| Expired options | - | - | - | (2,450) | 2,450 | - |
| June 30 | <u>\$ 1,285,465</u> | <u>802</u> | <u>24,538</u> | <u>\$ 9,858</u> | <u>\$ 3,124</u> | <u>\$1,323,787</u> |
| 2021 | | | | | | |
| | Issue premium | Difference between the price of acquiring or disposing of equities of a subsidiary and the book value | Recognition of changes in ownership in subsidiaries | Employee stock options | Others | Total |
| January 1 | \$ 1,013,516 | 802 | 24,439 | \$ 43,945 | \$ - | \$1,082,702 |
| Share-based payment | - | - | - | 10,075 | - | 10,075 |
| Exercise of employee share options | 127,897 | - | - | (29,199) | - | 98,698 |
| Expired options | - | - | - | (674) | 674 | - |
| June 30 | <u>\$ 1,141,413</u> | <u>802</u> | <u>24,439</u> | <u>\$ 24,147</u> | <u>\$ 674</u> | <u>\$1,191,475</u> |

(20) Retained earnings

- (a) 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:
- i. Withholding taxes.
 - ii. Make up for past losses.
 - iii. 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.

- iv. 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.

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.

- (b) 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.
- (c) 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.
- (d) The Company's distribution of profits

The appropriation of the Company's 2021 and 2020 earnings had been resolved at the shareholders' meeting on May 31, 2022 and July 8, 2021 respectively. Details are summarized below:

| | 2021 | | 2020 | |
|----------------------------|--------------|----------------------------------|------------|----------------------------------|
| | Amount | Dividends per share (NT\$) | Amount | Dividends per share (NT\$) |
| Legal reserve allocation | \$ 156,088 | | \$ 93,008 | |
| Special reserve allocation | 7,709 | | 1,358 | |
| Stock dividends | 24,801 | 0.30 | - | - |
| Cash dividends | 967,217 | 11.70 | 553,003 | 6.80 |
| | \$ 1,155,815 | | \$ 647,369 | |

(21) Operating revenue

- (a) 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 | | | | | | |
|---|--------------|--------------|------------|--------------|------------|--------------|
| April 1 to June 30, 2022 | Taiwan | Asia | Americas | Europe | Others | Total |
| Revenue from contracts with customers | \$ 799,710 | \$ 832,117 | \$ 566,077 | \$ 595,947 | \$ 72,728 | \$ 2,866,579 |
| Industrial storage devices and memory modules | | | | | | |
| April 1 to June 30, 2021 | Taiwan | Asia | Americas | Europe | Others | Total |
| Revenue from contracts with customers | \$ 985,588 | \$ 824,678 | \$ 419,547 | \$ 619,520 | \$ 35,713 | \$ 2,885,046 |
| Industrial storage devices and memory modules | | | | | | |
| January 1 to June 30, 2022 | Taiwan | Asia | Americas | Europe | Others | Total |
| Revenue from contracts with customers | \$ 1,664,232 | \$ 1,538,560 | \$ 965,394 | \$ 1,169,737 | \$ 118,393 | \$ 5,456,316 |
| Industrial storage devices and memory modules | | | | | | |
| January 1 to June 30, 2021 | Taiwan | Asia | Americas | Europe | Others | Total |
| Revenue from contracts with customers | \$ 1,528,850 | \$ 1,408,280 | \$ 765,724 | \$ 1,056,363 | \$ 65,749 | \$ 4,824,966 |

(b) Contract liabilities

i. Contract liabilities related to contracts with customers recognized by the Group:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 | January 1, 2021 |
|---------------------------|---------------|-------------------|---------------|-----------------|
| Contract liabilities | | | | |
| - Product sales contracts | \$ 28,975 | \$ 31,810 | \$ 52,869 | \$ 41,011 |

ii. Contract liabilities at the beginning of the period recognized as revenue of the period

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|-------------------------|--------------------------|--------------------------|
| Product sales contracts | \$ 11,678 | \$ 320 |
| Product sales contracts | \$ 29,658 | \$ 39,139 |

(22) Interest income

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|---|----------------------------|----------------------------|
| Interest on bank deposits | \$ 1,599 | \$ 1,305 |
| Interest income on financial assets at amortized cost | 1,042 | 754 |
| Other interest income | 1 | 3 |
| | \$ 2,642 | \$ 2,062 |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Interest on bank deposits | \$ 1,929 | \$ 2,115 |
| Interest income on financial assets at amortized cost | 1,791 | 1,378 |
| Other interest income | 5 | 4 |
| | \$ 3,725 | \$ 3,497 |

(23) Other income

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|--------------------------|-------------------------------|-------------------------------|
| Government grants (Note) | \$ - | \$ 6,511 |
| Rental income | 1,749 | 1,396 |
| Others | 1,816 | 947 |
| | <u>\$ 3,565</u> | <u>\$ 8,854</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Government grants (Note) | \$ 2,208 | \$ 20,740 |
| Rental income | 3,799 | 2,948 |
| Others | 3,145 | 2,867 |
| | <u>\$ 9,152</u> | <u>\$ 26,555</u> |

Note: Innodisk USA Corporation, a subsidiary of the Group, applied for the local government's subsidy related to COVID-19 and other relevant policies, and recognized the government grants for the three-month period ended June 30, 2021, and the six-month period ended June 30, 2021 in the amounts of \$6,511, and \$17,892, respectively.

(24) Other gains and losses

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|---|-------------------------------|-------------------------------|
| Net foreign exchange gain (loss) | \$ 71,787 | (\$ 19,818) |
| Gain (loss) on disposal of property, plant and equipment | (28) | (1) |
| Gain on disposal of investments | 4,228 | - |
| Gains on revaluation of investments accounted for using equity method | - | 2,780 |
| Depreciation charges on investment property | (355) | (348) |
| Others | 18 | (160) |
| | <u>\$ 75,650</u> | <u>(\$ 17,547)</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Net foreign exchange gain (loss) | \$ 134,502 | (\$ 23,839) |
| Gain (loss) on disposal of property, plant and equipment | (28) | 440 |
| Gain on disposal of investments | 4,228 | - |
| Gains on revaluation of investments accounted for using equity method | - | 2,780 |
| Depreciation charges on investment property | (686) | (696) |
| Others | (502) | (191) |
| | <u>\$ 137,514</u> | <u>\$ 21,506</u> |

(25) Finance cost

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|--|-------------------------------|-------------------------------|
| Interest expense on bank borrowings | \$ 1,199 | \$ 85 |
| Interest expenses on lease liabilities | 629 | 654 |
| Others | 16 | - |
| | <u>\$ 1,844</u> | <u>\$ 739</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Interest expense on bank borrowings | \$ 2,061 | \$ 148 |
| Interest expenses on lease liabilities | 1,246 | 1,298 |
| Others | 24 | - |
| | <u>\$ 3,331</u> | <u>\$ 1,446</u> |

(26) Expenses by nature

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|---|-------------------------------|-------------------------------|
| Employee benefits expense | \$ 335,032 | \$ 274,221 |
| Depreciation charges on property, plant and equipment | \$ 23,198 | \$ 16,697 |
| Depreciation charges on right-of-use assets | \$ 7,143 | \$ 7,193 |
| Amortization charges on the intangible assets and deferred assets. | \$ 6,064 | \$ 5,599 |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Employee benefits expense | \$ 655,629 | \$ 516,073 |
| Depreciation charges on property, plant and equipment | \$ 45,511 | \$ 33,333 |
| Depreciation charges on right-of-use assets | \$ 14,062 | \$ 13,917 |
| Amortization charges on the intangible assets and deferred assets. | \$ 12,125 | \$ 10,542 |

(27) Employee benefits expense

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|---------------------------------|-----------------------------|-----------------------------|
| Payroll expenses | \$ 290,307 | \$ 229,029 |
| Employee stock options | - | 5,863 |
| Labor and health insurance fees | 20,460 | 17,828 |
| Pension costs | 8,356 | 7,734 |
| Directors' remuneration | 5,929 | 5,402 |
| Other employee benefit expenses | 9,980 | 8,365 |
| | <u>\$ 335,032</u> | <u>\$ 274,221</u> |

| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
|---------------------------------|-------------------------------|-------------------------------|
| Payroll expenses | \$ 553,680 | \$ 430,404 |
| Employee stock options | 12,043 | 10,075 |
| Labor and health insurance fees | 40,532 | 34,605 |
| Pension costs | 19,410 | 15,929 |
| Directors' remuneration | 10,884 | 8,774 |
| Other employee benefit expenses | 19,080 | 16,286 |
| | <u>\$ 655,629</u> | <u>\$ 516,073</u> |

(a) According to the Company's Articles of Incorporation, the company shall allocate the following amounts as employee bonuses and director remunerations if the income before taxes after the deduction to make up for losses still has a balance:

- i. More than 3% as employee remunerations.
- ii. Less than 2% as remunerations for directors.

Employee remunerations mentioned in the preceding paragraph shall be in the form of stocks or cash and shall be determined by the board resolution and reported to the shareholders' meeting. The recipients include the employees of subsidiaries in which the Company holds more than half of the shares with voting power or the total capital of the subsidiaries.

(b) For the three months ended June 30, 2022 and 2021, and the six months ended June 30, 2022 and 2021, the estimated amount of employees' remuneration was NT\$38,490, NT\$25,700, NT\$62,490, and NT\$42,500, respectively; the estimated amount of directors' and supervisors' remuneration was NT\$5,050, NT\$4,680, NT\$9,400, and NT\$7,500, respectively; the aforementioned amounts were recorded as salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 5.15 % and 0.78 % of the Company's profit for the three months ended June 30, 2022 and 2021, respectively.

The remuneration to employees and remuneration to directors and supervisors approved by the board meeting for 2021 were NT\$105,000 and NT\$18,400, respectively, which were consistent with the amounts recognized in the 2021 financial statements, and had not been paid in cash in full as of June 30, 2022.

(c) Information about employees' remuneration 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.

(28) Income tax

(a) Income tax expense

i. Components of income tax expense:

| | <u>April 1 to June 30, 2022</u> | <u>April 1 to June 30, 2021</u> |
|--|---------------------------------------|---------------------------------------|
| Current income tax: | | |
| Income tax arising from income of the current period | \$ 160,829 | \$ 141,139 |
| Tax overestimate in the previous year | (28,360) | (12,037) |
| Withholding and provisional tax | <u>4,846</u> | <u>376</u> |
| Total current income tax | <u>137,315</u> | <u>129,478</u> |
| Deferred income tax: | | |
| Origination and reversal of temporary differences | (4,392) | (4,371) |
| Others: | | |
| Effects of changes in foreign exchange rates | <u>227</u> | (<u>85</u>) |
| Income tax expense | <u>\$ 133,150</u> | <u>\$ 125,022</u> |
| | <u>January 1 to June 30, 2022</u> | <u>January 1 to June 30, 2021</u> |
| Current income tax: | | |
| Income tax arising from income of the current period | \$ 269,589 | \$ 203,505 |
| Amount of income tax not paid in the previous year | (90) | - |
| Tax overestimate in the previous year | (28,312) | (12,008) |
| Withholding and provisional tax | <u>5,521</u> | <u>1,232</u> |
| Tax on undistributed surplus earnings | (<u>20,254</u>) | <u>-</u> |
| Total current income tax | <u>226,454</u> | <u>192,729</u> |
| Deferred income tax: | | |
| Origination and reversal of temporary differences | (15,310) | <u>689</u> |
| Others: | | |
| Tax on undistributed surplus earnings | 20,254 | - |
| Effects of changes in foreign exchange rates | <u>246</u> | (<u>27</u>) |
| Income tax expense | <u>\$ 231,644</u> | <u>\$ 193,391</u> |

ii. For the three months ended June 30, 2022 and 2021, and six months ended June 30, 2022 and 2021, the Group had no income tax related to other comprehensive income and direct debits or credits.

(b) The Company's income tax returns through 2019 have been assessed and approved by the Tax Authority.

As for the consolidated subsidiary, Aetina Corporation, the income tax returns through 2020 also have been assessed and approved by the Tax Authority.

As for the consolidated subsidiary, Antzer Tech Co.,Ltd., the income tax returns through 2020 have also been assessed and approved by the Tax Authority.

(29) Earnings per share

| | April 1 to June 30, 2022 | | |
|---|--------------------------|---|---------------------------------|
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 536,500 | 83,761 | 6.41 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 536,500 | 83,761 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 237 | |
| - Employee stock options | - | 164 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 536,500 | 84,162 | 6.37 |
| | April 1 to June 30, 2021 | | |
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 477,358 | 82,471 | 5.79 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 477,358 | 82,471 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 135 | |
| - Employee stock options | - | 844 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 477,358 | 83,450 | 5.72 |

| | January 1 to June 30, 2022 | | |
|---|----------------------------|---|---------------------------------|
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 922,467 | 83,458 | 11.05 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 922,467 | 83,458 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 543 | |
| - Employee stock options | - | 166 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 922,467 | 84,167 | 10.96 |

| | January 1 to June 30, 2021 | | |
|---|----------------------------|---|---------------------------------|
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 736,921 | 82,218 | 8.96 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 736,921 | 82,218 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 348 | |
| - Employee stock options | - | 819 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 736,921 | 83,385 | 8.84 |

The shareholders' meeting resolved that the 2021 unappropriated retained earnings would be capitalized to issue new shares on May 31, 2022. The base date for capitalization was August 6, 2022. Pro forma of the retroactive effect of stock dividends on earnings per share is shown below:

| | April 1 to June 30, 2022 | | |
|---|--------------------------|---|---------------------------------|
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 536,500 | 86,241 | 6.22 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 536,500 | 86,241 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 237 | |
| - Employee stock options | - | 164 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 536,500 | 86,642 | 6.19 |
| | April 1 to June 30, 2021 | | |
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 477,358 | 84,945 | 5.62 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 477,358 | 84,945 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 135 | |
| - Employee stock options | - | 844 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 477,358 | 85,924 | 5.56 |

| | January 1 to June 30, 2022 | | |
|---|----------------------------|---|---------------------------------|
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 922,467 | 85,938 | 10.73 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 922,467 | 85,938 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 543 | |
| - Employee stock options | - | 166 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 922,467 | 86,647 | 10.65 |
| | January 1 to June 30, 2021 | | |
| | Amount after tax | Weighted average number of share outstanding (thousand shares) | Earnings per share (NT\$) |
| <u>Basic earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 736,921 | 84,685 | 8.70 |
| <u>Diluted earnings per share</u> | | | |
| Current net profit attributable to ordinary shareholders of the parent company | \$ 736,921 | 82,218 | |
| Impact of conversion of all dilutive potential ordinary shares | | | |
| - Employee remuneration | - | 348 | |
| - Employee stock options | - | 819 | |
| Current net profit attributable to ordinary shareholders of the parent company plus the impact of potential ordinary shares from conversion | \$ 736,921 | 85,852 | 8.58 |

(30) Business combinations

- (a) The Group acquired 68.11% of equity of Antzer Tech Co., Ltd. on May 18, 2021 in the amount of NT\$19,889 in cash, and obtained the control over Antzer Tech Co., Ltd., which sells software and hardware related to automotive electronics.

- (b) Information on the consideration paid for the acquisition of Antzer Tech Co., Ltd., the fair value of the assets acquired and the liabilities assumed on the acquisition date, and the fair value of the non-controlling interests on the acquisition date is as follows:

| | <u>May 18, 2021</u> |
|--|---------------------|
| Consideration for acquisition - cash | \$ 19,889 |
| Acquisition-date fair value of equities in Antzer Tech Co., Ltd. previously held | <u>9,311</u> |
| | <u>29,200</u> |
| Fair value of the identifiable assets acquired and the liabilities assumed | |
| Cash and cash equivalents | 7,007 |
| Notes receivable | 13 |
| Accounts receivable | 1,583 |
| Other receivables | 134 |
| Inventories | 5,197 |
| Prepayments | 998 |
| Property, plant and equipment | 182 |
| Intangible assets | 9,000 |
| Other non-current assets | 9,616 |
| Contract liabilities - current | (1,424) |
| Accounts payable | (829) |
| Accounts payable -- related parties | (247) |
| Other payables | (1,984) |
| Other current liabilities | (46) |
| Total identifiable net assets | <u>29,200</u> |
| Goodwill | <u>\$ -</u> |

- (c) The fair value of the identifiable intangible assets acquired (including trademark rights and patent rights) is NT\$9,000.
- (d) The Group had held 31.89% of equity interests in Antzer Tech Co., Ltd. before the business combination, and the gains recognized after remeasurement at fair value were NT\$2,780.
- (e) The Group merged with Antzer Tech Co., Ltd. on May 18, 2021, the operating revenue and the net income before income tax contributed by Antzer Tech Co., Ltd. were NT\$5,812 and NT\$893, respectively. If it is assumed that Antzer Tech Co., Ltd. had been included in the consolidated entities since January 1, 2021, the Group's operating revenue and profit before income tax for the period would be NT\$10,199,564 and NT\$1,966,409, respectively.

(31) Supplemental cash flow information

- (a) Investing activities with partial cash payments:

| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
|--|-------------------------------|-------------------------------|
| Purchase of property, plant and equipment | \$ 369,544 | \$ 13,933 |
| Add: Opening balance of payable on equipment | 16,348 | - |
| Less: Ending balance of payable on equipment | (3,530) | - |
| Cash paid during the period | <u>\$ 382,362</u> | <u>\$ 13,933</u> |

(b) Financing activities with no cash flow effects:

| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
|---|-------------------------------|-------------------------------|
| Stock dividends | <u>\$ 24,801</u> | <u>\$ -</u> |
| Cash dividends announced but not yet paid out | <u>\$ 967,217</u> | <u>\$ -</u> |

(32) Changes in liabilities from financing activities

| | 2022 | | | |
|---|---|---|--|----------------------|
| | Other payable- Cash dividends payable | Long-term loans (including due within one year) | Lease liabilities (current/non-current) | Deposits received |
| January 1 | \$ - | \$ 142,654 | \$ 208,577 | \$ 1,402 |
| Increase in borrowings | - | 268,544 | - | - |
| Repayment of borrowings | - | (626) | - | - |
| Cash dividends announced but not yet paid out | 967,217 | - | - | - |
| Payment of lease liabilities | - | - | (13,708) | - |
| Other non-cash changes | - | - | 12,619 | - |
| Increase in guarantee deposits received | - | - | - | 682 |
| Decrease in guarantee deposits received | - | - | - | (599) |
| Effect of exchange rate changes | - | (133) | - | (1) |
| June 30 | <u>\$ 967,217</u> | <u>\$ 410,439</u> | <u>\$ 207,488</u> | <u>\$ 1,484</u> |
| | 2021 | | | |
| | Long-term borrowings | Long-term loans (including due within one year) | Lease liabilities (current/non-current) | Deposits received |
| January 1 | \$ - | \$ 20,311 | \$ 214,879 | \$ 1,243 |
| Increase in borrowings | 83,580 | - | - | - |
| Repayment of borrowings | - | (679) | - | - |
| Payment of lease liabilities | - | - | (13,911) | - |
| Other non-cash changes | - | - | 14,961 | - |
| Decrease in guarantee deposits received | - | - | - | (95) |
| Effect of exchange rate changes | - | (1,068) | - | (16) |
| June 30 | <u>\$ 83,580</u> | <u>\$ 18,564</u> | <u>\$ 215,929</u> | <u>\$ 1,132</u> |

7. Related-party transactions

(1) Related parties' names and relationships

| <u>Name of the related party</u> | <u>Relationship with the Group</u> |
|--|--|
| <u>Affiliates:</u> | |
| Millitronic Co., Ltd. | An entity over which the Group has significant influence |
| Sysinno Technology Inc. | An entity over which the Group has significant influence |
| Antzer Tech Co., Ltd. | An entity on which the Group has a significant influence in the first quarter of 2021. The Group acquired the control in the second quarter of 2021 and it became a subsidiary of the Group. Therefore, the disclosure of the transactions before the control was acquired was made. |
| <u>Other related parties:</u> | |
| 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. |
| All directors, the general manager and key executives. | The Group's key executives and governance units |

(2) Significant transactions with the related parties

(a) Sales of goods

i. Operating revenue

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

| | <u>April 1 to June 30, 2022</u> | <u>April 1 to June 30, 2021</u> |
|--|---------------------------------------|---------------------------------------|
| An entity over which the Group has significant influence | <u>\$ 26</u> | <u>\$ 98</u> |
| | <u>January 1 to June 30, 2022</u> | <u>January 1 to June 30, 2021</u> |
| An entity over which the Group has significant influence | <u>\$ 79</u> | <u>\$ 232</u> |

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.

ii. Accounts receivable

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

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|--|----------------------|------------------------------|----------------------|
| An entity over which the Group has significant influence | \$ 15 | \$ 2 | \$ 13 |

(b)Purchase transaction

i. Operating costs

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

| | <u>April 1 to June 30, 2022</u> | <u>April 1 to June 30, 2021</u> |
|--|---------------------------------------|---------------------------------------|
| An entity over which the Group has significant influence | \$ 119 | \$ 11 |
| Other related parties | 49 | - |
| | <u>\$ 168</u> | <u>\$ 11</u> |
| | <u>January 1 to June 30, 2022</u> | <u>January 1 to June 30, 2021</u> |
| An entity over which the Group has significant influence | \$ 565 | \$ 39 |
| Other related parties | 49 | 55 |
| | <u>\$ 614</u> | <u>\$ 94</u> |

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.

ii. Accounts payable

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

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|--|----------------------|------------------------------|----------------------|
| An entity over which the Group has significant influence | \$ 16 | \$ 238 | \$ - |
| Other related parties | 52 | 147 | - |
| | <u>\$ 68</u> | <u>\$ 385</u> | <u>\$ -</u> |

(c)Donations / operating expenses

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

| | | |
|---------------------|-------------------------------|-------------------------------|
| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
| Innodisk Foundation | \$ 2,000 | \$ 1,000 |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Innodisk Foundation | \$ 2,000 | \$ 2,000 |

(d) Leases and services

i. Other income

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

| | April 1 to June 30, 2022 | | April 1 to June 30, 2021 | |
|--|----------------------------|--------------|----------------------------|--------------|
| | Rental income | Other income | Rental income | Other income |
| An entity over which the Group has significant influence | \$ 266 | \$ 90 | (\$ 9) | \$ 190 |
| | January 1 to June 30, 2022 | | January 1 to June 30, 2021 | |
| | Rental income | Other income | Rental income | Other income |
| An entity over which the Group has significant influence | \$ 445 | \$ 180 | \$ 127 | \$ 539 |

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

ii. Other receivables

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

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--|---------------|----------------------|---------------|
| An entity over which the Group has significant influence | \$ 31 | \$ 42 | \$ 63 |

iii. Other non-current liabilities

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

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--|---------------|----------------------|---------------|
| An entity over which the Group has significant influence | \$ 152 | \$ - | \$ - |

(3) Compensation of key management personnel

| | April 1 to June 30, 2022 | April 1 to June 30, 2021 |
|------------------------------|-------------------------------|-------------------------------|
| Short-term employee benefits | \$ 33,015 | \$ 19,328 |
| Post-employment benefits | 230 | 233 |
| Share-based payment | - | 1,458 |
| | <u>\$ 33,245</u> | <u>\$ 21,019</u> |
| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
| Short-term employee benefits | \$ 45,033 | \$ 28,159 |
| Post-employment benefits | 460 | 339 |
| Share-based payment | 2,830 | 2,133 |
| | <u>\$ 48,323</u> | <u>\$ 30,631</u> |

8. Pledged assets

Assets pledged by the Group as collateral are as follows:

| Assets | Book value | | | Purpose |
|--|-------------------|-------------------|-----------------|--|
| | June 30, 2022 | December 31, 2021 | June 30, 2021 | |
| Financial assets at amortized cost-non- current - pledge of time deposits | \$ 10,706 | \$ 10,706 | \$ 7,706 | Provide pledge time deposits as lease deposits and Post- Release Duty Payment |
| Land and buildings | 452,385 | 156,159 | - | Long-term loans |
| Investment property -Land and buildings | 32,991 | - | - | Long-term loans |
| | <u>\$ 496,082</u> | <u>\$ 166,865</u> | <u>\$ 7,706</u> | |

9. Significant contingent liabilities and unrecognized contract commitments

(1) Major contingent liabilities

Not applicable.

(2) Significant unrecognized contract commitments

(a) The endorsements and guarantees provided by the Company for the bank borrowings to subsidiaries were NT\$21,735, NT\$21,924, and NT\$38,205 as of June 30, 2022, December 31, 2021, and June 30, 2021, respectively.

(b) Capital expenditures with contracts signed that have not yet been incurred

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-------------------------------|---------------|----------------------|---------------|
| Property, plant and equipment | \$ 485,100 | \$ 268,544 | \$ - |

It is the contractual commitment of the Company to purchase the factory in Hsinchu Science Park, Yilan, for NT\$485,100 as of June 30, 2022.

It is the contractual commitment of the Company to purchase the real estate in Xizhi District, New Taipei City, for NT\$268,544 as of December 31, 2021.

10. Losses due to major disasters

Not applicable.

11. Significant events after the balance sheet date

The board resolution on July 6, 2022 determined the first employee stock option plan of 2022 and established the stock option method. Please refer to Note 6 (16).

12. Others

(1) 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 2022 as in 2021. As of June 30, 2022, December 31, 2021 and June 30, 2021, the Group's debt-to-capital ratios were are disclosed in consolidated balance sheet.

(2) Financial instruments

(a) Financial instruments by category

The Financial Assets of the Group (cash and cash equivalents, financial assets measured at amortized cost-current, notes receivable, accounts receivable, accounts receivable -- related parties, financial assets at fair value through other comprehensive income-non-current, financial assets at amortized cost-non-current and refundable deposits) and financial Liabilities (short-term borrowings, accounts payable, accounts payable -- related parties, other payables, long-term loans (including current portion), guarantee deposit received, lease liabilities -- current, and lease liabilities - non-current) are disclosed in the consolidated balance sheet and Note 6.

(b) Risk management policies

i. 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.

ii. 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.

(c) Significant financial risks and degrees of financial risks

i. 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 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:

| June 30, 2022 | | | |
|---|---------------------------------|---------------|-------------------|
| (foreign currency: functional currency) | Foreign currency (in thousands) | Exchange rate | Book value (NT\$) |
| <u>Financial Assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | 88,129 | 29.7200 | \$ 2,619,194 |
| RMB : NTD | 13,680 | 4.4390 | 60,726 |
| JPY : NTD | 196,640 | 0.2182 | 42,907 |
| EUR : NTD | 205 | 31.0500 | 6,365 |
| <u>Financial Liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | 11,223 | 29.7200 | 333,548 |
| JPY : NTD | 20,430 | 0.2182 | 4,458 |
| EUR : NTD | 158 | 31.0500 | 4,906 |
| USD : RMB | 2,306 | 6.6952 | 68,534 |
| December 31, 2021 | | | |
| (foreign currency: functional currency) | Foreign currency (in thousands) | Exchange rate | Book value (NT\$) |
| <u>Financial Assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | 91,034 | 27.6800 | \$ 2,519,821 |
| RMB : NTD | 22,109 | 4.3440 | 96,041 |
| JPY : NTD | 224,092 | 0.2405 | 53,894 |
| EUR : NTD | 320 | 31.3200 | 10,022 |
| <u>Financial Liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | 30,209 | 27.6800 | 836,185 |
| JPY : NTD | 5,837 | 0.2405 | 1,404 |
| EUR : NTD | 4 | 31.3200 | 125 |
| USD : RMB | 3,090 | 6.3720 | 85,531 |
| June 30, 2021 | | | |
| (foreign currency: functional currency) | Foreign currency (in thousands) | Exchange rate | Book value (NT\$) |
| <u>Financial Assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | 80,113 | 27.8600 | \$ 2,231,948 |
| RMB : NTD | 24,772 | 4.3090 | 106,743 |
| JPY : NTD | 233,865 | 0.2521 | 58,957 |
| EUR : NTD | 352 | 33.1500 | 11,669 |
| <u>Financial Liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | 22,597 | 27.8600 | 629,552 |
| JPY : NTD | 14,763 | 0.2521 | 3,722 |
| EUR : NTD | 183 | 33.1500 | 6,066 |
| USD : RMB | 5,164 | 6.4660 | 143,879 |

(D) Total exchange gain (loss) (realized and unrealized) due to significant foreign exchange rate fluctuations on monetary items held by the Group were

disclosed in Note 6 (24) for the three months ended June 30, 2022, and 2021, and six months ended June 30, 2022, and 2021, respectively.

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

| | | January 1 to June 30, 2022 | | |
|------------------------------|-----------|----------------------------|--------------------------|--------------------------------------|
| | | Sensitivity Analysis | | |
| | | Fluctuation | Impact on profit or loss | Impact on other comprehensive income |
| <u>Financial Assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| | USD : NTD | 1% | \$ 26,192 | \$ - |
| | RMB : NTD | 1% | 607 | - |
| | JPY : NTD | 1% | 429 | - |
| | EUR : NTD | 1% | 64 | - |
| <u>Financial Liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| | USD : NTD | 1% | (3,335) | - |
| | JPY : NTD | 1% | (45) | - |
| | EUR : NTD | 1% | (49) | - |
| | USD : RMB | 1% | (685) | - |
| | | January 1 to June 30, 2021 | | |
| | | Sensitivity Analysis | | |
| | | Fluctuation | Impact on profit or loss | Impact on other comprehensive income |
| <u>Financial Assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| | USD : NTD | 1% | \$ 22,319 | \$ - |
| | RMB : NTD | 1% | 1,067 | - |
| | JPY : NTD | 1% | 590 | - |
| | EUR : NTD | 1% | 117 | - |
| <u>Financial Liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| | USD : NTD | 1% | (6,296) | - |
| | JPY : NTD | 1% | (37) | - |
| | EUR : NTD | 1% | (61) | - |
| | USD : RMB | 1% | (1,439) | - |

B. Price risk

(A) The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(B) The Group's investments in equity securities comprise shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant for the three months ended June 30, 2022 and 2021 as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income would have increased/decreased by NT\$272 and NT\$0, respectively.

C. Cash flow and fair value interest rate risk

(A) The Group's interest rate risk arises from short-term and long-term loans. 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 the three months ended June 30, 2022 and 2021, the Group's borrowings at floating rates were denominated in NTD and EUR.

(B) For the three months ended June 30, 2022 and 2021, if the interest rate had been 1% higher, while all other variables remain unchanged, the net profit before tax would have been NT\$2,052 and NT\$511 lower, respectively, mainly due to higher interest expenses on floating rate borrowings.

ii. 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 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.

- 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 | Less than 30 days past due | 31 to 60 days past due | 61 to 180 days past due | More than 181 days past due | Total |
|----------------------|---------------------|----------------------------|------------------------|-------------------------|-----------------------------|---------------------|
| <u>June 30, 2022</u> | | | | | | |
| Expected loss rate | 0.03%~0.09% | 0.03%~1.12% | 0.03%~14.2% | 0.03%~89.07% | 100.00% | |
| Notes receivable | \$ 2,381 | \$ - | \$ - | \$ - | \$ - | \$ 2,381 |
| Accounts receivable | 1,709,043 | 109,689 | 13,658 | 4,221 | 21 | 1,836,632 |
| Total book value | <u>\$ 1,711,424</u> | <u>\$ 109,689</u> | <u>\$ 13,658</u> | <u>\$ 4,221</u> | <u>\$ 21</u> | <u>\$ 1,839,013</u> |
| Loss provision | <u>(\$ 940)</u> | <u>(\$ 532)</u> | <u>(\$ 1,145)</u> | <u>(\$ 851)</u> | <u>(\$ 21)</u> | <u>(\$ 3,489)</u> |

| | Not past due | Less than 30 days past due | 31 to 60 days past due | 61 to 180 days past due | More than 181 days past due | Total |
|--------------------------|--------------|----------------------------|------------------------|-------------------------|-----------------------------|--------------|
| <u>December 31, 2021</u> | | | | | | |
| Expected loss rate | 0.03%-0.08% | 0.03%-0.95% | 0.03%-12.82% | 0.03%-81.53% | 100.00% | |
| Notes receivable | \$ 1,986 | \$ - | \$ - | \$ - | \$ - | \$ 1,986 |
| Accounts receivable | 1,472,521 | 72,779 | 10,907 | 877 | - | 1,557,084 |
| Total book value | \$ 1,474,507 | \$ 72,779 | \$ 10,907 | \$ 877 | \$ - | \$ 1,559,070 |
| Loss provision | (\$ 884) | (\$ 364) | (\$ 578) | (\$ 619) | \$ - | (\$ 2,445) |

| | Not past due | Less than 30 days past due | 31 to 60 days past due | 61 to 180 days past due | More than 181 days past due | Total |
|----------------------|--------------|----------------------------|------------------------|-------------------------|-----------------------------|--------------|
| <u>June 30, 2021</u> | | | | | | |
| Expected loss rate | 0.03%-0.08% | 0.03%-0.94% | 0.03%-12.72% | 0.03%-84.76% | 100.00% | |
| Notes receivable | \$ 550 | \$ - | \$ - | \$ - | \$ - | \$ 550 |
| Accounts receivable | 1,809,459 | 60,279 | 2,264 | 2,090 | 188 | 1,874,280 |
| Total book value | \$ 1,810,009 | \$ 60,279 | \$ 2,264 | \$ 2,090 | \$ 188 | \$ 1,874,830 |
| Loss provision | (\$ 543) | (\$ 18) | (\$ 91) | (\$ 531) | (\$ 188) | (\$ 1,371) |

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:

| | 2022 | 2021 |
|--|---------------------|---------------------|
| | Accounts receivable | Accounts receivable |
| January 1 | \$ 2,445 | \$ 1,206 |
| Expected loss (profit) on credit impairment | 951 | 147 |
| Effects of changes in foreign exchange rates | 93 | 18 |
| June 30 | \$ 3,489 | \$ 1,371 |

iii. 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, as the instruments chosen have appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. As of June 30, 2022, December 31, 2021, and June 30, 2021, the position of the 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:

| | Less than 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
|---|---------------------|--------------|--------------|--------------|------------|
| <u>June 30, 2022</u> | | | | | |
| <u>Non-derivative Financial</u> | | | | | |
| <u>Liabilities:</u> | | | | | |
| Lease liabilities (current/non-current) | \$ 23,627 | \$ 12,383 | \$ 26,761 | \$ 184,790 | \$ 247,561 |
| Long-term loans (including current portion) | 6,037 | 26,783 | 74,374 | 342,844 | 450,038 |
| | Less than 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
| <u>December 31, 2021</u> | | | | | |
| <u>Non-derivative Financial</u> | | | | | |
| <u>Liabilities:</u> | | | | | |
| Lease liabilities (current/non-current) | \$ 24,510 | \$ 17,390 | \$ 24,708 | \$ 182,208 | \$ 248,816 |
| Long-term loans (including current portion) | 3,629 | 11,967 | 26,817 | 114,597 | 157,010 |
| | Less than 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
| <u>June 30, 2021</u> | | | | | |
| <u>Non-derivative Financial</u> | | | | | |
| <u>Liabilities:</u> | | | | | |
| Lease liabilities (current/non-current) | \$ 25,315 | \$ 19,290 | \$ 26,663 | \$ 186,187 | \$ 257,455 |
| Long-term loans (including current portion) | 2,534 | 2,505 | 14,019 | - | 19,058 |

(3) Fair value information

- (a) The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

- (b) Fair value information of investment property at cost is provided in Note 6(10).
(c) Financial instruments not measured at fair value

The carrying amounts of the Group's financial instruments are not measured at fair value (including cash and cash equivalents, financial assets measured at amortized cost - current, notes receivable, accounts receivable (including related parties), other receivables (including related parties), financial assets measured at amortized cost - non-current, refundable deposits, accounts payable (including related parties), other payables, lease liabilities (including current and non-current), long-term loans (including current portion), and guarantee deposit received) is a reasonable approximation of fair value.

(d) The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

i. The related information of natures of the assets and liabilities is as follows:

| <u>June 30, 2022</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| <u>Recurring fair value</u> | | | | |
| <u>measurements</u> | | | | |
| Financial assets at fair value through other comprehensive income - Equity securities | \$ 27,239 | \$ - | \$ - | \$ 27,239 |

December 31, 2021 and June 30, 2021: None.

ii. The methods and assumptions the Group used to measure fair value are as follows:

A. The Group used market quoted prices as their fair values (that is, Level 1), the list shares are based on closing price on the balance sheet date.

B. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

(4) Additional information

In response to the COVID-19 pandemic and the anti-pandemic measures implemented by the government, the Group has adjusted the resources, manpower, and supply chains prudently and flexibly. Meanwhile, we have adopted relevant measures, such as flexible working hours and regular screening, to reduce the impact of the pandemic on the Group's operations. As of August 5, 2022, the changes due to the pandemic did not significantly impact our operations.

13. Additional disclosures

(1) Significant transactions information

- (a) Loans to others: None.
- (b) Provision of endorsements and guarantees to others: Please refer to Schedule 1.
- (c) Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to Schedule 2.
- (d) Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital: None.
- (e) Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- (f) Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

- (g) The amount of goods purchased or sold with related parties reaches NT\$100 million or more than 20% of the paid-in capital: Please refer to Schedule 3.
- (h) Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to Schedule 4.
- (i) Engagement in derivative transactions: None.
- (j) Significant inter-company transactions during the reporting periods: Please refer to Schedule 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in China): Please refer to Schedule 6.

(3) Information on investments in China

- (a) Basic information: Please refer to Schedule 7.
- (b) Significant transactions, either directly or indirectly through a third area, with investee companies in China: Please refer to Schedule 8.

(4) Information on major shareholders

For information on major shareholders: Please refer to Schedule 9.

14. Operating Segments Information

(1) 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.

(2) 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.

(3) 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.

(4) Reconciliation for segment income

(a) 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:

| | January 1 to June 30, 2022 | January 1 to June 30, 2021 |
|--|-------------------------------|-------------------------------|
| Profit (loss) from reportable segments | \$ 1,024,176 | \$ 934,912 |
| Interest income | 3,725 | 3,497 |
| Other income | 9,152 | 26,555 |
| Other gains and losses | 137,514 | (21,506) |
| Finance cost | (3,331) | (1,446) |
| Shares of losses of associates and joint ventures accounted for using equity method | (2,665) | (4,486) |
| Income (loss) before tax from continuing operations | <u>\$ 1,168,571</u> | <u>\$ 937,526</u> |

(b) 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.

Innodisk Corporation and Subsidiaries
Provision of endorsements and guarantees to others
January 1 to June 30, 2022

Schedule 1

Expressed in Thousands of NTD
(Unless otherwise specified)

| Number (Note 1) | Endorser / guarantor | Party being endorsed/guaranteed Company name | Relatio nship (Note 2) | Limit on endorsements/g uarantees provided for a single party (Note 3 - 4) | Maximum outstanding endorsement/g uarantee amount for the period (Note 5) | Outstanding endorsement/ amount for the period | Actual amount drawn down | Amount of endorsements / guarantees secured with collateral | Percentage of accumulated endorsement/gua rantee amount to net asset value of the endorser/guarant or company | Ceiling on the total amount of endorsement s/guarantees provided (Note 3) | Provision of endorsemen ts/guarantee s by the parent company to the subsidiary | Provision of endorsemen ts/ guarantees by the subsidiary to the parent company | Provision of endorseme nts/ guarantees to the party in China | Rema rks |
|--------------------|-------------------------|--|------------------------------|---|---|---|--------------------------------|---|--|---|---|---|--|-------------|
| | | | | | | | | | | | | | | |
| 0 | Innodisk Corporation | Innodisk Europe B.V. | 2 | \$ 1,208,772 | \$ 22,344 | \$ 21,735 | \$ 15,215 | \$ - | 0.36% | \$ 3,021,931 | Y | N | N | |
| 1 | Innodisk Europe B.V. | Innodisk France SAS | 4 | 7,082 | 4,745 | 4,616 | - | - | 13.04% | 17,705 | N | N | N | |

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

(1). Fill in 0 for the issuer.

(2). The invested companies 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 business dealings.

(2). A company in which the Company directly or indirectly holds more than 50% of its voting shares.

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

(4). A company in which the Company directly or indirectly holds more than 90% of its voting shares.

(5). A mutually guaranteed company of the trade or among joint constructors due to the need of the construction contract.

(6). A company jointly endorsed/guaranteed by its shareholders in proportion to their ownerships due to joint venture.

(7). Performance guarantee and joint guarantee by industry peers engaging in a house pre-sale contract in accordance with the Consumer Protection Act.

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

Note 5: Maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Innodisk Corporation and Subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
June 30, 2022

Schedule 2

| The company which holds the market securities | market securities category and name | Relationship with the issuers of market securities | General ledger account | Expressed in Thousands of NTD (Unless otherwise specified) the end of the period | | | | Remarks |
|--|---|---|--|--|---------------|---------------------------------|---------------|---------|
| | | | | share | Book value | Percentage of share holdings | Fair value | |
| Innodisk Corporation | Listed preferred share - SUPREME ELECTRONICS CO., LTD. | None | Financial assets at fair value through other comprehensive income - non-current | 666,000 | \$27,239 | 2.22% | \$27,239 | |

Note: the percentage of shareholdings calculated on the investee company's total issued shares. The value of the listed company is measured at the closing price end of the period, and the value of the non-listed company is measured by the estimated fair value.

Innodisk Corporation and Subsidiaries
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
January 1 to June 30, 2022

Schedule 3

Expressed in Thousands of NTD
(Except as otherwise indicated)

| Purchaser/seller | Counterparty name | Relationship with the endorser/guarantor | Transaction | | | Credit term | Differences in transaction terms compared with third party transactions | | Notes/accounts receivable (payable) | | Remarks |
|-------------------------------|-------------------------------|--|----------------|---------------|---------------------------------------|-------------|---|-------------|-------------------------------------|---|---------|
| | | | Purchase/Sales | Amount | Percentage of total purchases (sales) | | Unit Price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | |
| Innodisk Corporation | Innodisk USA Corporation | Subsidiary | (Sales) | (\$ 667,421) | (13%) | Net 60 | As agreed by both parties | Normal | \$ 283,578 | 16% | |
| Innodisk Corporation | Innodisk Shenzhen Corporation | Subsidiary | (Sales) | (268,127) | (5%) | Net 60 | As agreed by both parties | Normal | 68,538 | 4% | |
| Innodisk USA Corporation | Innodisk Corporation | Parent company | Purchase | 667,421 | 23% | Net 60 | As agreed by both parties | Normal | (283,578) | (71%) | |
| Innodisk Shenzhen Corporation | Innodisk Corporation | Parent company | Purchase | 268,127 | 9% | Net 60 | As agreed by both parties | Normal | (68,538) | (17%) | |

Innodisk Corporation and Subsidiaries
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more:
 January 1 to June 30, 2022

Schedule 4

Expressed in Thousands of NTD
 (Except as otherwise indicated)

| Companies with accounts receivable | Counterparty name | Relationship with the endorser/guarantor | Balance of account receivable from related parties | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Amount of recognized allowance for bad debts |
|------------------------------------|-------------------------------|--|--|---------------|---------------------|----------------|---|--|
| | | | | | Amount | Action taken | | |
| Innodisk Corporation | Innodisk USA Corporation | Subsidiary | \$ 283,578 | 4.82 | \$ - | Not applicable | \$ 131,914 | \$ - |
| Innodisk Corporation | Innodisk Shenzhen Corporation | Subsidiary | 68,538 | 6.96 | - | Not applicable | 37,069 | - |

Innodisk Corporation and Subsidiaries
Significant inter-company transactions during the reporting periods and their business relationships.
January 1 to June 30, 2022

Schedule 5

Individual transactions less than NT\$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 otherwise indicated)

| Number (Note 1) | Relationship | Counterparty | Relationship (Note 2) | General ledger account | Status of transaction | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|-----------------------|----------------------|-------------------------------|--------------------------|---------------------------|-----------------------|---------------------------|--|
| | | | | | Amount | Transaction terms | |
| 0 | Innodisk Corporation | Innodisk USA Corporation | (1) | Sales | \$ 667,421 | Same with other customers | 12% |
| 0 | Innodisk Corporation | Innodisk Shenzhen Corporation | (1) | Sales | 268,127 | Same with other customers | 5% |
| 0 | Innodisk Corporation | Innodisk USA Corporation | (1) | Accounts receivable | 283,578 | Same with other customers | 3% |
| 0 | Innodisk Corporation | Innodisk Shenzhen Corporation | (1) | Accounts receivable | 68,538 | Same with other customers | 1% |

Note 1: The business dealing information between the parent company and its subsidiaries shall be indicated in the number field respectively. The filling method of the number is as follows:

(1). Parent company is "0".

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

Note 2: There are the following three types of relationships with the counterparty, and only the type needs to be indicated (if it is the same transaction between parent and subsidiary companies or between subsidiaries, there is no need to disclose it again. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction;

for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction):

(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 June 30, 2022

Schedule 6

Expressed in Thousands of NTD
(Except as otherwise indicated)

| Name of Investor | Investee | Location | Main business activities | Initial investment amount (Note 1) | | Shares held as of the end of period | | | Net profit (loss) of the investee for the current period | Investment income(loss) recognized by the Company for the current period | Remarks |
|----------------------|-------------------------------|---------------|---|---------------------------------------|--------------------------------|-------------------------------------|------------|---------------|--|---|---------|
| | | | | Balance at the end of period | End of the previous year | Number of Shares | Percentage | Book value | | | |
| Innodisk Corporation | Innodisk USA Corporation | United States | Industrial embedded storage devices | \$ 140,499 | \$ 140,499 | 2,046,511 | 100.00 | \$ 99,644 | \$ 1,786 | \$ 1,948 | |
| Innodisk Corporation | Innodisk Japan Corporation | Japan | After-sales services and support of industrial embedded storage devices | 3,533 | 3,533 | 196 | 100.00 | 8,830 | 1,204 | 1,183 | |
| Innodisk Corporation | Innodisk Europe B.V. | Netherlands | After-sales services and support of industrial embedded storage devices | 17,802 | 17,802 | 50,000,100 | 100.00 | 35,409 | 2,606 | 2,606 | |
| Innodisk Corporation | Innodisk Global-M Corporation | Mauritius | Investment holdings | 20,154 | 20,154 | 665,000 | 100.00 | 61,970 | (11,810) | (11,719) | |
| Innodisk Corporation | Aetina Corporation | Taiwan | Manufacturing and sales of industrial graphics cards | 24,091 | 24,091 | 13,361,737 | 74.78 | 257,898 | 57,331 | 42,880 | |
| Innodisk Corporation | AccelStor Inc. | 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 | 54,157 | 5,415,720 | 33.55 | 8,733 | (5,269) | (1,768) | |
| Innodisk Corporation | Antzer Tech Co., Ltd. | Taiwan | Electronic parts and components manufacturing. | 57,133 | 37,244 | 58,400,000 | 100.00 | 31,722 | 4,680 | 3,178 | |
| Innodisk Corporation | Sysinno Technology Inc. | Taiwan | Electronic parts and components manufacturing. | 12,900 | 12,900 | 645,000 | 43.00 | 7,340 | (2,086) | (897) | |
| Innodisk Europe B.V. | Innodisk France SAS | France | After-sales services and support of industrial embedded storage devices | 175 | 175 | - | 100.00 | 1,170 | 523 | 523 | |
| Aetina Corporation | Aetina USA Corporation | United States | After-sales service and support for industrial graphics cards | - | - | - | 100.00 | - | - | - | Note 2 |
| Aetina Corporation | Aetina Europe B.V. | Netherlands | After-sales service and support for industrial graphics cards | - | - | - | 100.00 | - | - | - | Note 3 |

Note 1: Disclosed at the historical exchange rate

Note 2: Aetina Corporation established the subsidiary Aetina USA Corporation in September 2021, and the capital injection has not been completed as of June 30, 2022.

Note 3: Aetina Corporation established the subsidiary Aetina Europe B.V. Corporation in January 2022, and the capital injection has not been completed as of June 30, 2022.

Innodisk Corporation and Subsidiaries
Information on investments in China - Basic data
January 1 to June 30, 2022

Schedule 7

Expressed in Thousands of NTD
(Except as otherwise indicated)

| 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 period | | 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 by the Company for the current period (Note 2) | Net profit (loss) of the investee for the period | Accumulated amount of investment income remitted back to Taiwan | Remarks |
|-------------------------------|-------------------------------------|---------------------------------------|----------------------------------|---|--|---------------|---|--|--|---|--|---|---------|
| | | | | | Remitted to | Remitted back | | | | | | | |
| Innodisk Shenzhen Corporation | Industrial embedded storage devices | \$18,168 (US\$600 thousands) (Note 3) | 2. Innodisk Global-M Corporation | \$18,168 (US\$600 thousands) (Note 3) | \$ - | \$ - | \$18,168 (US\$600 thousands) (Note 3) | (\$ 11,810) | 100 | (\$ 11,810) | \$ 62,338 | \$ - | |

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

- (1). Directly invest in a company in China.
- (2). Re-investment in China through a company in a third area (please specify the company in the third area)
- (3). Other methods

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

Note 3: Disclosed at the historical exchange rate

| Company name | Accumulated amount of investment remitted from Taiwan to China at the end of the period | 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) | \$ 3,680,436 |

Note 4: The cap is 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 June 30, 2022

Schedule 8

Expressed in Thousands of NTD
 (Except as otherwise indicated)

| Investee in China | Sales (Purchases) | | Property transactions | | Accounts receivable / payable | | Notes endorsement and guarantee or provision of collateral | | Financial intermediation | | | | |
|-------------------------------|-------------------|----|-----------------------|---|-------------------------------|----|--|---------|--------------------------|----------------------------------|------------------------|-----------------------|--------|
| | Amount | % | Amount | % | Balance | % | Balance at the end of the period | Purpose | Highest balance | Balance at the end of the period | Range of interest rate | Current interest rate | Others |
| Innodisk Shenzhen Corporation | \$ 268,127 | 5% | \$ - | - | \$ 68,538 | 1% | \$ - | - | \$ - | \$ - | - | \$ - | - |

Innodisk Corporation and Subsidiaries
Information on major shareholders
June 30, 2022

Schedule 9

| Names of major shareholders | Shares | |
|---|-----------------------|-------------------------|
| | Number of Shares Held | Shareholding percentage |
| Rui Ding Invest Co., Ltd. | 6,318,037 | 7.53% |
| Colbert Global Opportunities Fund II in the custody of HSBC | 4,764,073 | 5.67% |

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.