

Solid State System Co., Ltd.

2023 Annual Report

Published on: March 31, 2024

Check the Annual Report at: <http://mops.tse.com.tw>
Company Website: <http://www.3system.com.tw>

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- III. Name, Address, Website and Telephone Number of the Share Registrar:
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Address: 1F Underground., No. 35, Ln. 11, Guangfu N. Rd., Songshan Dist., Taipei City 105410, Taiwan (R.O.C.)
Tel.:(02)2768-6668
Website:http : //www.masterlink.com.tw
- IV. The Name of CPAs, the Name, Address, Website and Telephone Number of the Accounting Firm for the Most Recent Annual Financial Report
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Name of Accounting Firm: KPMG Taiwan
Address: No. 11, Prosperity Road I, Hsinchu Science Park, Hsinchu City 300091, Taiwan (R.O.C.)
Tel.:(03)579-9955
Website:http : //www.kpmg.com.tw
- V. The Name of Any Exchanges where the Company's Securities are Traded Offshore, and the Method by which to Access Information on Said Offshore Securities: None
- VI. Company Website: http : //www.3system.com.tw

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Exchange Act That Have Occurred in the Most Recent Fiscal Year Up to the Date of Publication of the Annual Report

Chapter 1. Letter to Shareholders

The company's revenue for the year 2023 was NT\$275,641 thousand dollars, with an overall gross margin of approximately 6% and net loss after tax of NT\$220,015 thousand dollars. Looking back on 2023, for the inflation and geopolitics, the demand of the end consumer market sharp dropped from 2022, The overall revenue has decreased by 32% compared with 2022, and the overall gross profit margin has also decreased by 23% compared with 2022.

In terms of NAND Flash controller IC, the company will continue supporting new generation 3D NAND on the existing USB 3.2 Gen I BCH 及 LDPC controller IC, and launch a new generation cost-competitive USB3.2 Gen I controller IC to support the specification requirements of future advanced generations of 3D NAND. Except Mass Production SATA interface SSD solution, the company develops to support advanced generations of 3D NAND on PCIe interface SSD solution, and plans to expand into a wider SSD application market. In terms of long term product development and planning for the NAND Flash application market, the company will will utilize the company's strengths and the market trend to match the customer's product and marketing strategies, and make steady progress.

In terms of Audio IC, the inventory depletion of the Company's products at the customer end has improved significantly in the second half of 2023. Since the US-China trade issue is not over, the client is still in a conservative state of zero inventory and no stocking in 2024. Also, the stock depletion of other consumer Audio products of the original manufacturers has not yet been completed, and some products have disrupted the market at low prices. The above factors have affected the pace of recovery of the company's product sales. In 2024, the company will continue to strengthen its support for customers by providing application software and mass production services that fulfill the needs of different customers, in order to enhance the competitiveness of customers' USB AUDIO end-products.

In terms of MEMS microphone ICs, the company has successfully develop a UV-resistant MEMS sensor for hearing aids and a high SNR MEMS sensor for AI in 2023. The company has also successfully developed analog differential interface ASICs for PreAmp ASICs and digital interface ASICs that support high SNR. Analog and digital MEMS microphones that meet the AEC-Q103 specification for automobiles have also successfully entered the automotive market. In the future, the company will continue to introduce digital microphones with high AOP and high SNR to enter other high-end application markets. In terms of marketing, MEMS microphones have gained good reputation in TWS headphones, ANC headphones, smart TVs, security and environmental monitoring, smart home and in-vehicle applications. In addition to continuing to optimize the performance of MEMS Sensor ICs and PreAmp ASIC ICs, the company will also introduce products with higher price/performance ratios and a variety of application-oriented features in response to

the market demand, such as hearing aids, for which the company has already begun sampling. In the existing product application areas, in addition to deepening the cultivation of existing customers, the company will strengthen the cultivation of the same type of customers, in order to proactively respond to the gradual recovery of the market demand in the future.

Since the global outbreak of the COVID 19 epidemic in 2020, it has had a huge impact on human daily life. Epidemic prevention and isolation and the rise of China have brought geopolitical impacts, unexpected market demand changes, and the Ukraine-Russia war has worsened inflation, which has also brought a huge impact on semiconductor-related industries, causing the supply chain to be cut off, and the market demand to change drastically. In the post-epidemic 2023, destocking and grasping the recovery of various application markets are challenges that all companies must face. The consumer market of the IC industry is still at the bottom of the valley, and the recovery of market demand is not yet obvious. Prudent production and marketing control and timely expansion of the market are the key goals of the company in 2024. With the efforts of all colleagues in the company and the support of shareholders, the company will strive to grow in 2024 and create maximum benefits for shareholders.

Finally, thank you again for your support and encouragement. Thank you!

| | |
|-----------|-------------|
| Chairman | Jeffrey Lin |
| President | Tim Hu |

Chapter 2. Company Profile

I. Date of Incorporation:

November 26, 1998

II. Corporate history

| | |
|----------|---|
| Nov.1998 | Company established. Authorized capital: NTD 200,000,000. Paid-in capital: NTD 60,000,000 |
| Dec.1998 | Permitted to enter the new-venture incubation center of ITRI and started operation. |
| May.2000 | The first product compact flash controller IC started mass production. Write speed is 2.5 times faster than that of the fastest solution of all the competitors worldwide |
| Oct.2000 | USB flash disk controller IC mass production |
| Mar.2002 | Worldwide first 4-level cell MLC based NAND compact flash controller IC mass production |
| Dec.2002 | Awarded by SBIR plan from Ministry of Economic Affairs |
| Mar.2003 | Public offering approved |
| Oct.2003 | USB 2.0 NAND flash controller IC mass production |
| Jan.2004 | Registration completed in OTC |
| Mar.2005 | Succeeded in design SD card controller IC with company own IP |
| Jun.2005 | Succeeded in design USB 2.0 linear fingerprint sensor controller IC by cooperate with Authentec of US |
| Jul.2005 | Audio SoC controller with class-D amplifier started mass production |
| Nov.2007 | USB multimedia controller IC started mass production |
| Dec.2007 | Public listed in OTC |
| Sep.2008 | Private placement introduced for bringing in strategic alliances |
| Oct.2008 | 43nm MLC flash USB controller IC started mass production |
| Dec.2008 | Certificated TCGA “GC004 General Assessment Criteria for the Corporate Governance System” |
| Jan.2009 | 43nm MLC flash SD controller IC with 24-bit ECC started mass production |
| Apr.2009 | 43nm D3 TLC flash SD controller IC with 24-bit ECC started mass production |
| May.2009 | Shenzhen branch office established to provide services and support to clients in great China |
| Mar.2010 | High speed SD 2.0 controller IC started mass production |
| Jul.2010 | Crystal-free USB 2.0 controller IC started mass production |
| Oct.2010 | Introduced CMOS MEMS microphone in TAITRONICS |
| Mar.2011 | CMOS MEMS microphone was awarded “National Project Excellence Award” from NSoC |
| Jun.2011 | CMOS MEMS microphone was awarded “Computex Best Choice – Jury’s Special Award” |

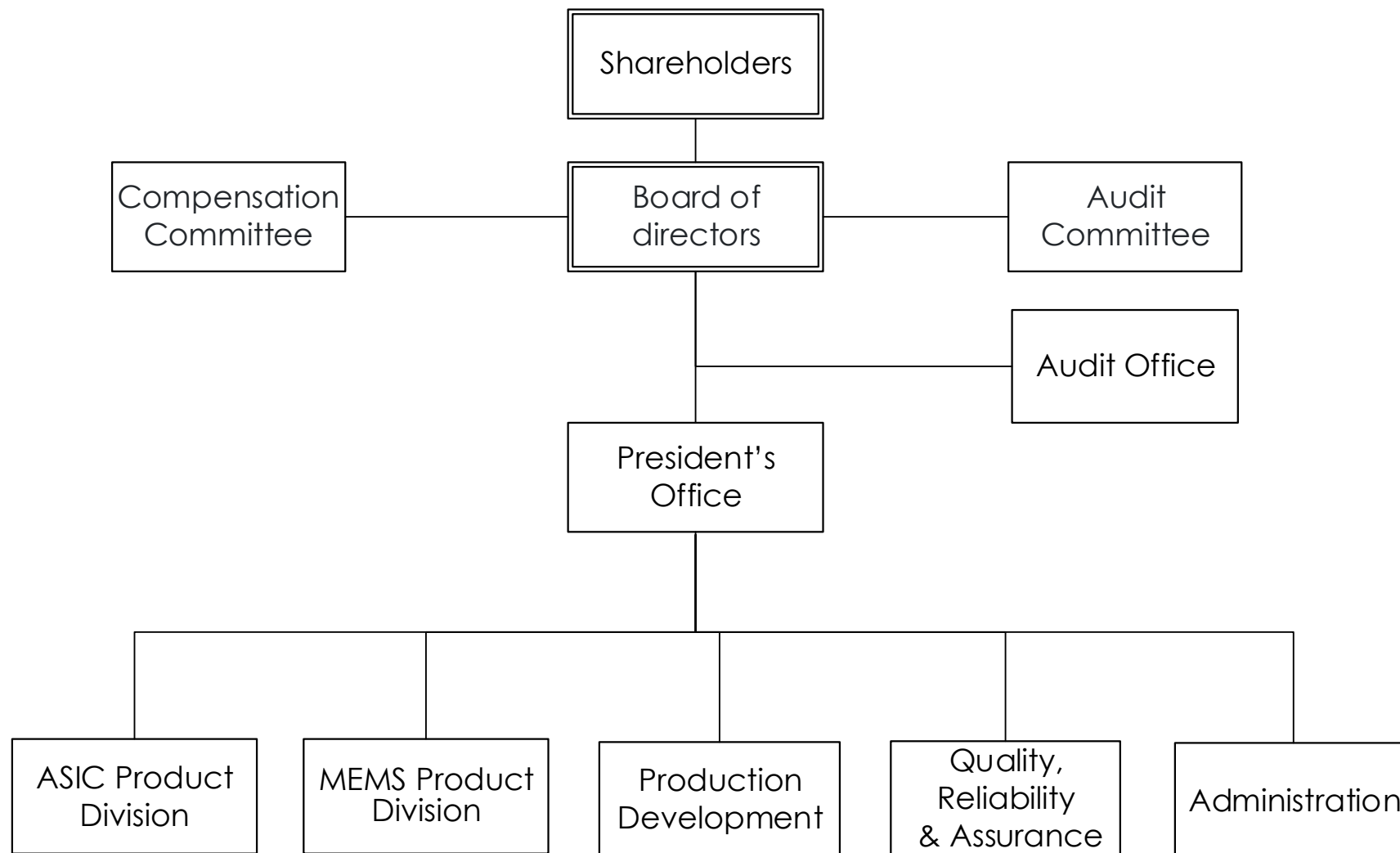
| | |
|----------|---|
| Jul.2011 | “Crystal-Free”USB 2.0 controller with 64-bit ECC started mass production |
| Dec.2011 | SD 2.0 controller with 64bit ECC started mass production |
| Dec.2011 | CMOS MEMS microphone awarded “Industrial Innovation Achievement Praise” by the Ministry of Economic Affairs |
| Dec.2011 | CMOS MEMS microphone awarded “Taiwan Excellence Award” |
| Dec.2011 | Passed TCGA Assessment Certification for the second time |
| Jun.2012 | Succeeded in digital CMOS MEMS microphone prototype verification |
| Dec.2012 | 2 channels 19nm NAND flash USB3.0 controller IC started mass production |
| Dec.2012 | Digital CMOS MEMS microphone awarded “Taiwan Excellence Award” |
| Jul.2013 | Digital CMOS MEMS microphone started mass production |
| Nov.2013 | Private placement introduced for bringing in strategic alliances |
| Nov.2013 | USB 3.0 NAND flash controller IC started mass production |
| Dec.2013 | 1ynm NAND flash USB controller IC mass production |
| Jan.2014 | High speed SD 3.0 controller IC started mass production |
| Jul.2014 | Awarded ”Corporate Information Disclosure Evaluation” of OTC |
| Jul.2014 | Launched single chip SAM(Small Array Microphone) |
| Dec.2014 | Single chip SAM(Small Array Microphone) awarded “Taiwan Excellence Award” |
| Dec.2014 | 15nm NAND flash USB controller IC started mass production |
| Apr.2015 | 1.2V low operation voltage CMOS MEMS microphone started mass production |
| Nov.2015 | 2nd generation package type CMOS MEMS microphone started mass production |
| Jul.2016 | Mini CSP analog CMOS MEMS microphone started mass production |
| Sep.2016 | DRAM-less SSD NAND controller turnkey solution started mass production |
| Nov.2016 | Launched ANC(active noise cancellation) earphone solution |
| Jul.2017 | Mini CSP digital CMOS MEMS microphone started mass production |
| Nov.2017 | Flash controller IC product line fully achieved in supporting 3D TLC NAND |
| Apr.2018 | DRAM-less SATA SSD 3D NAND controller turn-key solution started mass production |

| | |
|----------|---|
| Jun.2018 | Analog MEMS microphone pre-amplifier ASIC started mass production |
| Jan.2019 | 1100um x 1100um MEMS sensor started mass production |
| Jan.2019 | 2-chips analog MEMS microphone started mass production |
| Apr.2019 | SNR 68dB/AOP 130dB analog MEMS microphone started mass production |
| Apr.2019 | SNR 70dB/AOP 124dB analog MEMS microphone started mass production |
| Jun.2019 | Digital MEMS microphone pre-amplifier ASIC started mass production |
| Oct.2019 | 2-chips digital MEMS microphone started mass production |
| Dec.2019 | Launched digital ANC(active noise cancellation) earphone solution |
| Feb.2020 | 850um x 850um MEMS sensor started mass production |
| Apr.2020 | Built-In Dual Type A/C USB3.0 controller IC started mass production |
| Aug.2020 | RF shielded analog MEMS microphone started mass production |
| Aug.2020 | Supporting Intel N18 QLC 3D NAND flash USB3.0 controller IC started mass production |
| Sep.2020 | Launched digital hybrid ANC(active noise cancellation) earphone solution |
| Dec.2020 | Automotive application used analog MEMS microphone started mass production |
| Apr.2021 | Hi-Res USB Audio controller IC started mass production |
| May.2021 | Launched TWS hybrid ANC(active noise cancellation) earphone solution |
| Jun.2021 | 700um x 700um MEMS sensor started mass production |
| Aug.2021 | High air pressure endurance MEMS microphone started mass production Developed USB 3.2 Gen I controller IC to support Vccq 1.2V of NAND Flash |
| Dec.2021 | Developed USB 2.0 controller IC to support Vccq 1.2V of NAND Flash |
| Oct.2022 | Analog differential interface MEMS microphone started mass production |
| Dec.2022 | Anti-UV MEMS microphone started mass production |
| Feb.2023 | USB3.2 Gen I LDPC Controller IC developed to support KIOXIA BiCS6 TLC NAND Flash |
| Aug.2023 | 300um x 1300um MEMS sensor started mass production |

Chapter 3. Corporate Governance Report

I. Organizational System

(I) Organization Chart



(II) Department Functions

| Department | Organization Responsibilities |
|---------------------------------|--|
| President's Office | ◆ Formulate the Company's management policy, quality policy and be responsible for the Company's operation and decision-making. Implement and complete the tasks assigned by the Board of Directors. |
| Audit Office | ◆ Review and evaluate the appropriateness and effectiveness of internal control systems. ◆ Draw up and implement the annual internal audit plan and follow up the improvement results. |
| ASIC Product Divison | ◆ Business promotion, product development and testing of ASIC related products |
| MEMS Product Divison | ◆ Business promotion, product development and testing of MEMS related products |
| Production Development | ◆ Test evaluation and mass production planning of new product design and development, and completion of product production cost analysis. ◆ Cooperate with the product R&D unit to complete the R&D and mass production plan of product testing technology according to product specifications. ◆ Build and improve the testing process, complete the product feature report and improve product yield. ◆ Develop and implement production strategies and scheduling plans. |
| Quality Reliability & Assurance | ◆ R&D, verification and control of product quality. ◆ Establishment and maintenance of ISO quality system. |
| Administration | ◆ Finance and Accounting management, tax management, capital management, stock management and business performance related operations. ◆ Planning and management of enterprise application system integration, information construction, information technology security and network engineering. ◆ Human resource management and organizational development. |

II. Information on the Directors, President, Vice Presidents, Assistant Vice Presidents, and Heads of Divisions and Branch Units

(I) Information on Directors

| Unit: shares; % March 31, 2024 | | | | | | | | | | | | | | | | | | | | |
|--------------------------------|--|------------------------------------|----------------------------|-----------------|------------|------------------------------|------------------------------|-----------------------|----------------------|-----------------------|---|-----------------------|-----------------------------|-----------------------|--|---|--|------|--------------|--------|
| Title | Nationality/ Place of Registration | Name | Gender/ Age (Note 1) | Date Elected | Term | Date of First Election | Shareholding When Elected | | Current Shareholding | | Shareholding by Spouse and Minor Children | | Shareholding by Nominees | | Major (Education) Working Experiences | Other Position Concurrently Held at the Company and Other Companies | Other Executives, Directors or Supervisors Who Are Spouses or within the Second Degree of Kinship with Another | | | Remark |
| | | | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| Chairman | R.O.C. | Jeffrey Lin | Male 61-70 | 2021.07.08 | 3 years | 1998.11.11 | 2,270,594 | 3.51 | 1,697,971 | 2.98 | 8,162 | 0.01 | 0 | 0 | Manager, Macronix International Co., Ltd. Department of Electrical Engineering, National Tsing Hua University | Chief Technology Officer, Solid State System Co., Ltd. Chairman, VICHIP Corporation Limited | None | None | None | None |
| Director | Japan | KIOXIA Corporation | | 2021.07.08 | 3 years | 2017.9.22 | 5,065,847 | 7.83 | 3,375,480 | 5.93 | 0 | 0 | 0 | 0 | None | Director and Supervisor, KIOXIA Semiconductor Taiwan Corporation Director and Supervisor, KIOXIA Taiwan Corporation Director, Microtops Design Corporation Director, Phison Electronics Corp. | None | None | None | None |
| | Japan | Representative: Hatanaka Kojiro | Male 51-60 | 2021.07.08 | 3 years | 2017.9.22 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Memory Division NAND System Engineering Dept. Director Senior Manager Department of Electrical Engineering and Computer Science, School of Engineering, Kyushu University | Memory Division NAND System Engineering Dept. Director Senior Manager | None | None | None | None |

| Title | Nationality/ Place of Registration | Name | Gender/ Age (Note 1) | Date Elected | Term | Date of First Election | Shareholding When Elected | | Current Shareholding | | Shareholding by Spouse and Minor Children | | Shareholding by Nominees | | Major (Education) Working Experiences | Other Position Concurrently Held at the Company and Other Companies | Other Executives, Directors or Supervisors Who Are Spouses or within the Second Degree of Kinship with Another | | | Remark |
|-------------------------|--|---------------------------------------|----------------------------|-----------------|------------|------------------------------|------------------------------|-----------------------|----------------------|-----------------------|---|-----------------------|-----------------------------|-----------------------|--|--|--|------|--------------|--------|
| | | | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| Director | R.O.C./USA | Tim Hu | Male 61-70 | 2021.07.08 | 3 years | 2003.11.28 | 398,009 | 0.62 | 336,161 | 0.59 | 76,528 | 0.13 | 0 | 0 | Division Chief, Macronix International Co., Ltd. R&D Chief University of Missouri, Columbia, Master(ECS)Master | President, Solid State System Co., Ltd. | None | None | None | None |
| Director | USA | Kingston Technology Corporation | | 2021.07.08 | 3 years | 2012.6.6 | 4,655,446 | 7.20 | 3,485,652 | 6.12 | 0 | 0 | 0 | 0 | None | Director, Panram Technology Co., Ltd. Director, Kingston Solutions, Inc. Director, Powertech Technology Inc. | None | None | None | None |
| | R.O.C. | Representative: Albert Yang | Male 51-60 | 2021.07.08 | 3 years | 2014.4.16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Director of R&D Division, Kingston Solutions, Inc. Department of Electronic Engineering, Feng Chia University | Director of Kingston Flash Engineering Division | None | None | None | None |
| Independent Director | R.O.C. | Ken Lin | Male 61-70 | 2021.07.08 | 3 years | 2015.6.17 | 73,695 | 0.11 | 55,177 | 0.10 | 0 | 0 | 0 | 0 | CPA of Taiwan/USA Vice President, Solid State System Co., Ltd. President, Foshan T.N.C. Resin Co., Ltd. Director, OPALS Chemical Technology Ltd. Master, Institute of College of Management, Fu Jen Catholic University | President, T.N.C. Industrial Co., Ltd. Supervisor, Asmeditron Inc. Independent director, Innolux Corporation | None | None | None | None |
| Independent Director | R.O.C. | Cheermore Huang | Male 51-60 | 2021.07.08 | 3 years | 2018.6.8 | 400,800 | 0.62 | 160,810 | 0.28 | 0 | 0 | 0 | 0 | Chairman and President, ILI Technology Corp. Master, Institute of Electrical Engineering, National Tsing Hua University | Director, INT TECH (HK) Co., Ltd. | None | None | None | None |

| Title | Nationality/ Place of Registration | Name | Gender/ Age (Note 1) | Date Elected | Term | Date of First Election | Shareholding When Elected | | Current Shareholding | | Shareholding by Spouse and Minor Children | | Shareholding by Nominees | | Major (Education) Working Experiences | Other Position Concurrently Held at the Company and Other Companies | Other Executives, Directors or Supervisors Who Are Spouses or within the Second Degree of Kinship with Another | | | Remark |
|-------------------------|--|-----------|----------------------------|-----------------|------------|------------------------------|------------------------------|-----------------------|----------------------|-----------------------|---|-----------------------|-----------------------------|-----------------------|---|--|--|------|--------------|--------|
| | | | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| Independent Director | R.O.C. | James Hou | Male 51-60 | 2021.07.08 | 3 years | 2018.6.8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Assistant Vice President for Innovative Applications, IBM Taiwan Vice President, Provision Information Co., Ltd. Master, Information Science, Ohio State University Master, Department of Computer Science, National Tsing Hua University | Chairman, 94BOT Co., Ltd. Chairman, Bo Ku Network Co., Ltd. Chairman, 1984 Co., Ltd. Consultant Metaedge Corporation | None | None | None | None |

Note 1. State the age interval into which the actual age falls.

1. Major Shareholders of Institutional Shareholders

March 31, 2024; %

| Name of Institutional Shareholder | Major Shareholders of Institutional Shareholders | Shareholding Ratio |
|-----------------------------------|--|--------------------|
| KIOXIA Corporation | Kioxia Holdings Corporation | 100.00% |
| Kingston Technology Corporation | John Tu, Trustee of the John Tu and Mary Tu Family Trust dated June 16, 1995 | 50.00% |
| | David Sun and Diana Sun, Co-Trustees of the Sun Family Trust U/D/T dated February 26, 1986 | 50.00% |

2. Major Shareholders of Institutional Shareholders with Juristic Persons as Their Major Shareholders

March 31, 2024; %

| Name of Juristic Person | Major Shareholder | Shareholding Ratio |
|--------------------------------------|-----------------------------|--------------------|
| Kioxia Holdings Corporation (Note 1) | Toshiba Corporation | 40.64% |
| | BCPE Pangea Cayman, L.P. | 25.92% |
| | BCPE Pangea Cayman2, Ltd. | 14.96% |
| | BCPE Pangea Cayman 1A, L.P. | 9.37% |
| | BCPE Pangea Cayman 1B, L.P. | 5.99% |
| | Hoya Corporation | 3.13% |

Note (1). The above information comes from the website of Kioxia Holdings Corporation (As of March 31, 2024).

3. Disclosure of professional qualifications of directors and their independence:

| Qualifications Name | Professional Qualification and Work Experience | Independence Analysis | Number of Other Public Companies where the Individual Concurrently Serves as an Independent Director |
|-------------------------|--|---|--|
| Chairman Jeffrey Lin | Mr. Jeffrey Lin has been the Chairman of the Company for over 21 years since November 2003. He graduated with a bachelor degree in Department of Electrical Engineering, National Tsing Hua University. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. He has rich experience in IC design field and ever served as manager of Macronix International Co., Ltd. (Note 1) | Shareholding of 1,697,971 shares, accounting for 2.98%; served as a Director. | None |

| Qualifications Name | Professional Qualification and Work Experience | Independence Analysis | Number of Other Public Companies where the Individual Concurrently Serves as an Independent Director |
|--|--|--|--|
| Director, KIOXIA Corporation Representative: Hatanaka Kojiro | Mr. Hatanaka Kojiro serves as Director and Senior Manager of Memory Division NAND System Engineering Dept. Senior Manager. He holds a degree in Department of Electrical Engineering and Computer Science, School of Engineering, Kyushu University. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Shareholding of 3,375,480 shares, accounting for 5.93%; serves as Director. | None |
| Director, Kingston Technology Corporation Representative: Albert Yang | Mr. Yang, Hsu-Pei serves as Director of Kingston Flash Engineering Division, and holds a degree in Department of Electronic Engineering, Feng Chia University. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Shareholding of 3,485,652 shares, accounting for 6.12%; serves as Director. | None |
| Director, Tim Hu | Mr. Tim Hu has been the President of the Company for over 18 years since July 2006. He also served as Division Chief of Macronix International Co., Ltd., R&D Chief of Atronics International, Inc. He holds a Master's degree (EECS) from the University of Missouri, Columbia. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Serves as President of the Company, with shareholding of 336,161 shares, accounting for 0.59%; serves as Director. | None |
| Independent Director Cheermore Huang | Mr. Cheermore Huang has been a Director of INT TECH (HK) Co., Ltd. Since 2019 and has served as the Chairman and President of ILI Technology Corp. He holds a master's degree from the Institute of Electrical Engineering, National Tsing Hua University. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Serve as an independent director, conforming to the conditions of independence, including but not limited to the fact that he, his spouse or his relatives within the second degree are not directors, supervisors or employees of the Company or its affiliated enterprises; Shareholding of 160,810 shares, accounting for 0.28%; Not being a director, supervisor or employee of a company having a specified relationship with the Company; No pay received by for any services such as business, legal, financial, or accounting services provided to the Company or any affiliate thereof within the past 2 years. | 1 |

| Qualifications Name | Professional Qualification and Work Experience | Independence Analysis | Number of Other Public Companies where the Individual Concurrently Serves as an Independent Director |
|-----------------------------------|--|---|--|
| Independent Director Ken Lin | Mr. Ken Lin has been the President of T.N.C. Industrial Co., Ltd. since 2018, the Director of OPALS Chemical Technology Ltd. before, and also serves as the President of Foshan T.N.C. Resin Co., Ltd. He holds a master's degree from the Institute of College of Management, Fu Jen Catholic University, as well as Taiwan and USA CPA licenses. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Serve as an independent director, conforming to the conditions of independence, including but not limited to the fact that he, his spouse or his relatives within the second degree are not directors, supervisors or employees of the Company or its affiliated enterprises; Shareholding of 55,177 shares, accounting for 0.10%; Not being a director, supervisor or employee of a company having a specified relationship with the Company; No pay received by for any services such as business, legal, financial, or accounting services provided to the Company or any affiliate thereof within the past 2 years. | None |
| Independent Director James Hou | Mr. James Hou has been the Chairman of 94BOT Co., Ltd. And Bo Ku Network Co., Ltd since 2017, 1984 Co., Ltd. Chairman, Metaedge Corporation Consultant , and serves as the Assistant Vice President for Innovative Applications of IBM Taiwan, and Vice President, Provision Information Co., Ltd. He holds a master's degree from both the Information Science of Ohio State University and Department of Computer Science of National Tsing Hua University He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Serve as an independent director, conforming to the conditions of independence, including but not limited to the fact that he, his spouse or his relatives within the second degree are not directors, supervisors or employees of the Company or its affiliated enterprises; Does not hold shares of the Company; Not being a director, supervisor or employee of a company having a specified relationship with the Company; No pay received by for any services such as business, legal, financial, or accounting services provided to the Company or any affiliate thereof within the past 2 years. | None |

Note 1. Not under any of the circumstances stated in Article 30 of the Company Act.

4. Diversity and independence of the Board of Directors:

- (I) Diversity of the Board of Directors: Describe the Company's board diversity policy, objectives, and the status of implementation thereof. The diversity policy refers to matters including diversity in the composition or ratios of the board and its members in terms of the standards for election of directors, the required professional qualifications of directors, and their experience, gender,

age, nationality, and culture. Furthermore, describe the Company's specific objectives with regard to the above-mentioned policy, and the status of their achievement.

1. Diversity Policy of Board Members

The Company has established the Procedures for the Election of Directors, Article 2 of which stipulates that the directors of the Company shall generally have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the Board of Directors shall possess the following abilities:

- I. Ability to make operational judgments.
- II. Ability to perform accounting and financial analysis.
- III. Ability to conduct management administration.
- IV. Ability to conduct crisis management.
- V. Knowledge of the industry.
- VI. An international market perspective.
- VII. Ability to lead.
- VIII. Ability to make policy decisions.

2. Implementation of Diversity Policy of Board Members

Seniority of Independent Director:

| Name | Title | 3 years below | 3 to 9 years | 9 years above |
|-----------------|----------------------|---------------|--------------|---------------|
| Cheermore Huang | Independent Director | | ○ | |
| Ken Lin | Independent Director | | ○ | |
| James Hou | Independent Director | | ○ | |

| Diversity Item Name | Gender | Ability to Make Operational Judgments | Accounting and Financial Analysis Ability | Management Administration Ability | Crisis Management Ability | Knowledge of the Industry | International Market Perspective | Ability to Lead | Ability to Make Policy Decisions |
|---|--------|---------------------------------------|---|-----------------------------------|---------------------------|---------------------------|----------------------------------|-----------------|----------------------------------|
| Jeffrey Lin | Male | √ | ○ | √ | √ | √ | √ | √ | √ |
| KIOXIA Corporation Representative: Hatanaka Kojiro | Male | √ | ○ | √ | √ | √ | √ | √ | √ |
| Tim Hu | Male | √ | ○ | √ | √ | √ | √ | √ | √ |
| Kingston Technology Corporation Representative: Albert Yang | Male | √ | ○ | √ | √ | √ | √ | √ | √ |
| Cheermore Huang | Male | √ | ○ | √ | √ | √ | √ | √ | √ |
| Ken Lin | Male | √ | √ | √ | √ | √ | √ | √ | √ |
| James Hou | Male | √ | ○ | √ | √ | √ | √ | √ | √ |

Note: ○ means to having partial ability.

(II) Independence of the Board of Directors:

There are currently 7 directors in the Company, including 3 independent directors and 2 directors who are also employees of the Company (accounting for 42.86% and 28.57% of all directors, respectively). There is no female director in the Company at present. As of the end of 2023, all the directors are aged from 51 to 70, among which, all independent directors were in compliance with the regulations of the Securities and Futures Bureau of Financial Supervisory Commission on independent directors. . Please refer to the section "Information on Directors" in this Annual Report for the information on education background, gender, professional qualification, work experience and diversity of each director.

(II) President, Vice Presidents, Assistant Vice Presidents, and Heads of Divisions and Branch Units

Unit: shares; % March 31, 2024

| Title | Nationality | Name | Gender | Date Elected | Shareholding | | Shares Held by Spouse and Minor Children Shareholding | | Shareholding by Nominees | | Experience (Education) | Other Position Concurrently Held at the Company and Other Companies | Managerial Officer who Are Spouses or within the Second Degree of Kinship | | | Remark |
|-----------------------|-------------|------------|--------|--------------|------------------|--------------------|---|--------------------|--------------------------|--------------------|---|---|---|------|--------------|--------|
| | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| President | R.O.C./USA | Tim Hu | Male | 2006.07.07 | 336,161 | 0.59 | 76,528 | 0.13 | 0 | 0 | Division Chief, Macronix International Co., Ltd. R&D Chief, Atronics International, Inc. Master (EECS), University of Missouri, Columbia | None | None | None | None | None |
| Vice President of R&D | R.O.C. | Cheng Liou | Male | 2001.09.03 | 25,867 | 0.05 | 0 | 0.00 | 0 | 0 | Manager, Memory Application Department, Macronix International Co., Ltd. Associate Engineer, Industrial Technology Research Institute Master, Institute of Electrical Engineering, National Tsing | None | None | None | None | None |

| Title | Nationality | Name | Gender | Date Elected | Shareholding | | Shares Held by Spouse and Minor Children Shareholding | | Shareholding by Nominees | | Experience (Education) | Other Position Concurrently Held at the Company and Other Companies | Managerial Officer who Are Spouses or within the Second Degree of Kinship | | | Remark |
|---|-------------|--------------|--------|--------------|------------------|--------------------|---|--------------------|--------------------------|--------------------|--|---|---|------|--------------|--------|
| | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| | | | | | | | | | | | Hua University | | | | | |
| Senior Vice President | R.O.C. | Flink Chiu | Male | 2017.4.19 | 107,146 | 0.19 | 338 | 0 | 0 | 0 | Vice President, PANJIT International Inc. Department of Public Finance, Feng Chia University | Independent Director, International Carbide Technology Co., Ltd. | None | None | None | None |
| Finance /Accounting and Corporate Governance Director | R.O.C. | Joepye Tseng | Female | 2017.11.2 | 34,364 | 0.06 | 0 | 0 | 0 | 0 | Deputy Manager, Finance Department, Solid State System Co., Ltd. Accounting Department, China University of Technology | None | None | None | None | None |

III. Remuneration Paid During the Most Recent Fiscal Year to Directors (Including Independent Directors), the President and Vice Presidents

(I) Remuneration Paid to Directors and Independent Directors

| December 31, 2023; Unit: NT\$ thousand/thousand shares | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--------------------------------|--|-----------------------------------|--|-----------------------------------|--|---------------|--|--|--|--|--|----------------------------------|--|--------------------------------|--|-------------|-------|--|-------|--|-------------|--|
| Title | Name | Remuneration Paid to Directors | | | | | | | | Sum of A+B+C+D and Ratio to Net Income | | Relevant Remuneration Received by Directors who Are Also Employees | | | | | | | | Sum of A+B+C+D+E+F+G and Ratio to Net Income | | Remuneration from Invested Companies Other than Subsidiaries or the Parent Company | | |
| | | Base Compensation(A) | | Retirement Allowance (B) (Note 1) | | Director Remuneration(C) (Note 2) | | Allowances(D) | | | | Salary, Bonus, and Allowance (E) | | Retirement Allowance(F) (Note 1) | | Employee Compensation (Note 2) | | | | | | | | |
| | | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | | All Companies in Consolidated Financial Statements | | | The Company | All Companies in Consolidated Financial Statements |
| | | | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chairman | Jeffrey Lin | 0 | 0 | 0 | 0 | 0 | 0 | 21 | 21 | 0 | 0 | 2,777 | 2,777 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Director | Tim Hu | 0 | 0 | 0 | 0 | 0 | 0 | 21 | 21 | 0 | 0 | 2,258 | 2,258 | 108 | 108 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Director | KIOXIA Corporation Representative: Hatanaka Kojiro | 0 | 0 | 0 | 0 | 0 | 0 | 18 | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Director | Kingston Technology Corporation Representative: Albert Yang | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Independent Director | Ken Lin | 360 | 360 | 0 | 0 | 0 | 0 | 24 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Independent Director | Cheermore Huang | 360 | 360 | 0 | 0 | 0 | 0 | 30 | 30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Independent Director | James Hou | 360 | 360 | 0 | 0 | 0 | 0 | 27 | 27 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |

Note 1. It is the pension contributions made according to law.

Note 2. The Company did not distribute earnings for 2023.

Note 3. The policies, systems, standards, and structure for the remuneration of the independent directors, and state the correlation to the remuneration according to the responsibilities, risks time commitment and other factors:
The fixed remuneration of independent directors shall be the remuneration prescribed in accordance with the Articles of Incorporation of the Company, shall be proposed by the remuneration committee in consideration of the industry level and submitted to the Board of Directors for conclusion, and shall not include the director's remuneration appropriated from annual profit.

Note 4. Unless disclosed in the above table, remuneration received in the most recent fiscal year by the Directors for providing services (e.g. serving as a non-employee consultant) to the companies in the consolidated financial statements: None.

* The content of remuneration disclosed in this table is derived based on a concept different from the concept of income stipulated in the Income Tax Act. Therefore, this table is for information disclosure purposes, instead of taxation.

(II) Remuneration to the President and Vice Presidents

December 31, 2023; Unit: NT\$ thousand/thousand shares

| Title | Name | Salary(A) | | Retirement Allowance(B)(Note 1) | | Bonus and Allowances(C) | | Employee Compensation(D)(Note 2) | | | | Sum of A+B+C+D and Ratio to Net Income (%) | | Remuneration from Invested Companies Other than Subsidiaries or the Parent Company |
|-----------------------|------------|-------------|--|---------------------------------|--|-------------------------|--|----------------------------------|-------|--|-------|--|--|--|
| | | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | | All Companies in Consolidated Financial Statements | | The Company | All Companies in Consolidated Financial Statements | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | |
| President | Tim Hu | 6,209 | 6,209 | 1,762 | 1,762 | 71 | 71 | 0 | 0 | 0 | 0 | 5 | 5 | 0 |
| Vice President of R&D | Cheng Liou | | | | | | | | | | | | | |
| Senior Vice President | Flink Chiu | | | | | | | | | | | | | |

* The content of remuneration disclosed in this table is derived based on a concept different from the concept of income stipulated in the Income Tax Act. Therefore, this table is for information disclosure purposes, instead of taxation.

Range of Remuneration

| Range of Remuneration Paid to the President and Vice Presidents | Name of President and Vice President | |
|---|--------------------------------------|--|
| | The Company | All Companies in Consolidated Financial Statements |
| Less than NT\$1,000,000 | | |
| NT\$ 1,000,000 (inclusive) ~ NT\$ 2,000,000 (exclusive) | | |
| NT\$2,000,000 (inclusive) ~ NT\$3,500,000 (exclusive) | Flink Chiu; Tim Hu; Cheng Liou | Flink Chiu; Tim Hu; Cheng Liou |
| NT\$3,500,000 (inclusive) ~ NT\$5,000,000 (exclusive) | | |
| NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive) | | |
| NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive) | | |
| NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive) | | |
| NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (exclusive) | | |
| NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive) | | |
| More than NT\$100,000,000 | | |
| Total | 3 persons | 3 persons |

(III) Remuneration of the Company's Top Five Executives

December 31, 2023; Unit: NT\$ thousand/thousand shares

| Title | Name | Salary(A) | | Retirement Allowance(B)(Note 1) | | Bonuses and Allowances(C) | | Employee Compensation(D)(Note 2) | | | | Sum of A+B+C+D and Ratio to Net Income (%) | | Remuneration from Invested Companies Other than Subsidiaries or the Parent Company |
|--|--------------|-------------|--|---------------------------------|--|---------------------------|--|----------------------------------|-------|--|-------|--|--|--|
| | | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | All Companies in Consolidated Financial Statements | The Company | | All Companies in Consolidated Financial Statements | | The Company | All Companies in Consolidated Financial Statements | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chief Technology Officer | Jeffrey Lin | 2,378 | 2,378 | 0 | 0 | 399 | 399 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| President | Tim Hu | 2,258 | 2,258 | 108 | 108 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Vice President of R&D | Cheng Liou | 1,820 | 1,820 | 1,546 | 1,546 | 71 | 71 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior Vice President | Flink Chiu | 2,131 | 2,131 | 108 | 108 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance/Accounting and Corporate Governance Director | Joepye Tseng | 1,051 | 1,051 | 66 | 66 | 198 | 198 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(IV) Names of Managerial Officers who Received Employees' Remuneration and Distribution Results:

According to Article 21 of 3S's articles of association, if 3S still has accumulated losses, it should reserve the compensation amount in advance before appropriating the employee's remuneration and director's remuneration for the current year's profits, and then allocate the balance No less than 10% is employee remuneration and no more than 2% is director remuneration.

3S's 2023 is a loss for the current period, and will not distribute employee remuneration and director remuneration.

Separately Compare and Describe Total Remuneration, as A Percentage of Net Income Stated in the Parent Company Only Financial Statements, as Paid by the Company and by Each Other Company Included in the Consolidated Financial Statements During the Past 2 Fiscal Years to Directors, Supervisors, President, and Vice Presidents, and Analyze and Describe Remuneration Policies, Standards, and Packages, the Procedure for Determining Remuneration, and Its Linkage to Operating Performance and Future Risk Exposure:

1. The Company and all companies included in the consolidated report paid the remuneration to Directors, President and Vice Presidents in accordance with Article 17 and Article 21 of the Articles of Incorporation during the past 2 years, respectively as follows:

Unit: NT\$ thousand

| Item | 2022 | | | 2023 | | |
|---|--------------------|----------------------|-------|--------------------|----------------------|-------|
| | Total remuneration | Net profit after tax | Ratio | Total remuneration | Net profit after tax | Ratio |
| Director President Vice President | 13,129 | (156,559) | N/A | 12,055 | (220,015) | N/A |

2. Remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure

(1) Director remuneration allocation policy

As for director's remuneration, in accordance with Article 21-1 of the Articles of Incorporation, if the Company has accumulated losses from previous year and gained profit in current year, prior to the appropriation of remuneration for employees and directors, a certain amount shall be reserved for loss recovery in advance, and not less than 10% of the remaining earnings shall be appropriated for employees and not more than 2% for directors. The remuneration to independent directors of the Company shall be paid in the form of monthly fixed remuneration, and the distribution as provided in the first paragraph is not applicable.

(2) Manager remuneration allocation policy

The Company regularly checks and compares salaries with those of the same industry or talent competitors every year for the purpose of attracting, motivating and retaining talents. The Company's remuneration includes two parts: fixed and variable. The Company has set the performance target incentive reward for managers to fully reflect the performance of individuals and teams.

The Company's remuneration procedures for directors and managers are based on its performance evaluation methods for the Board of Directors and employee performance appraisal, and paid on a reasonable basis by taking into account the individual's contribution to the Company's performance while referring to the Company's operating performance, future risks, development strategies and industry trends. The performance evaluation and remuneration distribution shall be reviewed and approved by the Remuneration Committee and the Board of Directors in accordance with regulations. The Company will review the remuneration distribution policy in due course in light of the overall environment and its business strategies, so as to achieve a balance between the Company's sustainable operation and the interests of stakeholders.

- (3) The Company's remuneration policy is based on the individual's ability, contribution to the Company, and performance, which is positively correlated with business performance. The Company has appropriate control over future risks, and there is also a correlation between remuneration policy and future risk. The overall remuneration package mainly includes base salary, bonuses, employee dividends, and benefits. As for the standards of remuneration, base salary is based on the competitive market situation of the position held by the employee and company policy, while bonuses and employee dividends are based on the achievement of staff, segment objectives or company performance, and benefits are subject to compliance with laws and regulations, taking into account the needs of employees, and shall be designed to be shared among employees.

IV. Implementation of Corporate Governance

(1) Operations of the Board of Directors

(2) A total of 6 meetings (A) of the Board of Directors have been held in the most recent fiscal year (2023), with the directors' attendance shown as follows:

| Title | Name | Attendance in Person(B) | Attendance by Proxy | Rate of Attendance in Person(%) 【B/A】 | Remark |
|-------------------------|--|-------------------------------|------------------------|---|--|
| Chairman | Jeffrey Lin | 6 | 0 | 100 | None |
| Director | Tim Hu | 6 | 0 | 100 | None |
| Director | KIOXIA Corporation Representative: Hatanaka Kojiro | 6 | 0 | 100 | None |
| Director | Kingston Technology Corporation Representative: Albert Yang | 5 | 0 | 83 | None |
| Independent Director | Ken Lin | 5 | 0 | 83 | On December 30, 2023, independent director Cheermore Huang was entrusted to attend as proxy. |
| Independent Director | Cheermore Huang | 6 | 0 | 100 | None |
| Independent Director | James Hou | 6 | 0 | 100 | None |

Other information required to be disclosed:

- I. If any of the following circumstances exists, specify the board meeting date, meeting session number, content of the motion(s), the opinions of all the independent directors, and the measures taken by the Company based on the opinions of the independent directors:
- (I) Any matter under Article 14-3 of the Securities and Exchange Act: Please refer to major board resolutions on Page 62 of the Annual Report.
- (II) In addition to the matters referred to above, any dissenting or qualified opinion of an independent director that is on record or stated in writing with respect to any board resolution: None.
- II. The status of implementation of recusals of directors with respect to any motions with which they may have a conflict of interest: specify the director's name, the content of the motion, the cause for recusal, and whether and how the director voted.

| Board Date | Execution of directors' recusal of interest related proposals |
|------------|---|
| 2023.02.23 | In the resolution of the company's managers' annual incentive bonus case, Director Tim Hu, Deputy General Manager Cheng Liou and Deputy General Manager Flink Chiu did not participate in the discussion and resolution of this case due to interest avoidance. |
| 2023.02.23 | To resolve the case of setting performance targets for the company's managers for 2023, Director Tim Hu, Deputy General Manager Cheng Liou and Deputy General Manager Flink Chiu did not participate in the discussion and resolution of this case due to interests in avoidance. |

| | | | |
|--|------------|--|--|
| | 2023.12.21 | To resolve the case of setting performance targets for the company's managers for 2024, Director Tim Hu, Deputy General Manager Cheng Liou and Deputy General Manager Flink Chiu did not participate in the discussion and resolution of this case due to interests in avoidance. | |
| <p>III. A company listed on the Taiwan Stock Exchange (TWSE) or the Taipei Exchange (TPEX) shall disclose the cycles, periods, scope, method, contents and other matters of the self-evaluation by the board members of themselves (or peers), and state the implementation status of the board members' evaluation in 2023 as the following table (1):</p> <p>IV. Evaluation of targets (such as establishing an Audit Committee and enhancing information transparency) for strengthening of the functions of the Board of Directors during the current and immediately preceding fiscal years, and measures taken toward achievement thereof:</p> | | | |
| Targets for Strengthening of the Functions of the Board of Directors | | The Evaluation of Implementation Status | |
| Continue to enhance information transparency | | The Company sets a designated unit to be responsible for the disclosure of company information and the update of information on the company website. | |
| Actively establish communication with stakeholders | | The Company has a spokesperson and an acting spokesperson, through which stakeholders can use as a communication channel. Shareholders' proposals are accepted at the annual shareholders' meeting according to the schedule. Any shareholder with the right to make a proposal may submit an application to the Company during the acceptance period, and the Company will convene a Board of Directors for review in accordance with relevant regulations. | |
| Enhance the efficiency and decision-making ability of the Board of Directors | | The Company has formulated its Rules of Procedure for Board of Directors Meetings to strengthen the implementation of the functions of the Board of Directors and promote the benign development of the Board's participation in decision-making. | |
| Enhance professional knowledge | | Each year, the Company's directors shall attend training courses for as long as required by the competent authority. The Company encourages board members to participate in various professional courses, and promotes relevant laws and regulations on the board meetings to comply with the laws and regulations. | |

table (1) : Implementation of evaluations of the Board of Directors in 2023:

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation Method | Evaluation Content |
|------------------|-----------------------|--------------------|----------------------------------|---|
| Once a year | 2023/01/01~2023/12/31 | Board of Directors | Internal evaluation of the board | 1. Participation in the operation of the Company 2. Improvement of the quality of the Board of Directors' decision making 3. Composition and structure of the Board of Directors 4. The director's continuing education 5. Internal control |

| | | | | |
|-------------|---------------------------|--------------------------|---|---|
| Once a year | 2023/01/01~ 2023/12/31 | Individual directors | Self-evaluation by the board members of themselves | 1. Alignment of the goals and mission of the Company 2. Awareness of the duties of a director 3. Participation in the operation of the Company 4. Management and communication of internal relationship 5. The director's professionalism and continuing education 6. Internal control |
| Once a year | 2023/01/01~ 2023/12/31 | Functional Committees | Self-evaluation by functional committees | 1. Participation in the operation of the Company 2. Awareness of the duties of the functional committee 3. Improvement of quality of decisions made by the functional committee 4. Makeup of the functional committee and election of its members 5. Internal control |

(II) Annual priorities and operations of the Audit Committee

The Company's general shareholders' meeting has elected three independent directors to compose an audit committee, which shall meet at least once a quarter. The Audit Committee is responsible for the implementation of the appropriate presentation of the Company's financial statements, the election of CPAs and their independence and performance, the effective implementation of the Company's internal control, the Company's compliance with relevant laws and regulations, and control of existing or potential risks of the Company, etc.

Its main functions and powers are as follows:

1. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
2. Assessment of the effectiveness of the internal control system.
3. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.
4. Matters bearing on the personal interest of a director.

5. Material asset or derivatives transactions.
6. Material monetary loans, endorsement, or provision of guarantee.
7. The offering, issuance, or private placement of any equity-type securities.
8. The hiring or dismissal of attesting CPAs, or the compensation given thereto.
9. The appointment or discharge of a financial, accounting, or internal auditing officer.
10. Annual financial reports and second quarter financial reports that must be audited and attested by a CPA, which are signed or sealed by the chairman, managerial officer, and accounting officer.
11. Any other material matter so required by the Company or the Competent Authority.

A total of 5 meetings (A) have been held by the Audit Committee in the most recent fiscal year (2023), with the attendance of independent directors shown as follows:

| Title | Name | Attendance in Person(B) | Attendance by Proxy | Rate of Attendance in Person(%)【B/A】 | Remark |
|----------------------|-----------------|-------------------------|---------------------|--------------------------------------|--------|
| Independent Director | Cheermore Huang | 5 | 0 | 100 | None |
| Independent Director | Ken Lin | 5 | 0 | 100 | None |
| Independent Director | James Hou | 5 | 0 | 100 | None |

Other information required to be disclosed:

- I. If any of the following circumstances exists, specify the audit committee meeting date, meeting session number, content of the motion(s), the content of any dissenting or qualified opinion or significant recommendation of the independent directors, the outcomes of audit committee resolutions, and the measures taken by the Company based on the opinions of the audit committee:
 - (I) Any matter under Article 14-5 of Securities and Exchange Act: Refer to Schedule I.
 - (II) In addition to the matters referred to above, any matter that was not approved by the audit committee but was approved by a two-thirds or greater majority resolution of the Board of Directors: None.
- II. Implementation of recusals of independent directors with respect to any motions with which they may have a conflict of interest: specify the independent director's name, the content of the motion, the cause for recusal, and whether and how the independent director voted: None.
- III. Communication between the independent directors and the chief internal audit officer and the CPAs that serve as external auditor (including any significant matters communicated about with respect to the state of the Company's finances and business and the methods and outcomes of the communication.
 1. Direct communication channels are in place among internal audit supervisors, and the communication works well. The audit supervisor delivers the audit report to the independent directors on a monthly basis, and the independent directors may communicate with the audit supervisor at any time if they think it necessary.

2. The Company convenes the audit committee quarterly, during which the audit director reports to the audit committee members on the implementation of review and interacts with the independent directors. CPAs also attend the audit committee meeting to communicate and interact with other attendants independently on the review of financial statements or on financial, tax or internal control related issues.
3. The important contents of the communication and interaction among the independent directors, CPAs, and internal audit supervisor on the Audit Committee meeting shall be recorded in the Proceedings of the Audit Committee.

Schedule I

| Audit Committee | Content of Motion and Follow-up | Matters referred to in Article 14-5 of the Securities and Exchange Act | Resolutions Passed by More Than Two-thirds of All Directors but Without Approval of the Audit Committee |
|--|---|--|---|
| The 14 th Meeting of the 2nd Session (2024.02.19) | 1. 2023 annual business report and financial report . | ✓ | None |
| | 2. Change of visa accountant . | ✓ | |
| | 3. New accountant's remuneration and assessment of accountant's independence and competency . | ✓ | |
| | 4. Proposal for appropriation of losses in 2023. | ✓ | |
| | 5. Preparation of the "Internal Control System Statement" for 2023. | ✓ | |
| | 6. Amendment to the "Accounting System". | ✓ | |
| | 7. Application for bank forward foreign exchange quota. | ✓ | |
| | 8. Changes to the original plan for cash capital increase in private placement of ordinary shares. | ✓ | |
| | 9. Handle private placement cash capital increase and common stock issuance. | ✓ | |
| | Resolution Results of the Audit Committee: Adopted by all members of the Audit Committee | | |
| | The Company's Response to the Resolution Results of the Audit Committee: Approved by all the Directors present | | |
| The 13 th Meeting of the 2nd Session (2023.12.21) | 1. Proposal for the 2024 Annual Audit Plan. | ✓ | None |
| | 2. Revision of the Company's "Internal Control System—Real Estate, Plant and Equipment Cycle". | ✓ | |
| | 3. Application for bank forward foreign exchange quota. | ✓ | |
| | 4 Business Plan and Budget for 2024 | ✓ | |
| | Resolution Results of the Audit Committee: Adopted by all members of the Audit Committee | | |
| | The Company's Response to the Resolution Results of the Audit Committee: Approved by all the Directors present | | |

| | | | |
|--|---|---|------|
| The 12 th Meeting of the 2nd Session (2023.11.02) | 1.Financial statements for the third quarter of 2023 | ✓ | None |
| | 2. Appointment of the company’s new internal audit manager. | ✓ | |
| | 3. Revision of the "SP-100 Procurement and Payment Cycle" of the company's internal control system. | ✓ | |
| | 4. Handle cases related to the issuance price per share, total number of shares issued, and other related matters for cash capital increase of private equity common shares. | ✓ | |
| | Resolution Results of the Audit Committee: Adopted by all members of the Audit Committee | | |
| | The Company's Response to the Resolution Results of the Audit Committee: Approved by all the Directors present | | |
| The 11 th Meeting of the 2nd Session (2023.08.03) | 1. Financial statements for the second quarter of 2023. | ✓ | None |
| | 2. The Company's accounts receivable and amounts other than accounts receivable that are overdue for more than three months as of June 30, 2023 are planned to be classified as non-fund loans. | ✓ | |
| | Resolution Results of the Audit Committee: Adopted by all members of the Audit Committee | | |
| | The Company's Response to the Resolution Results of the Audit Committee: Approved by all the Directors present | | |
| The 10 th Meeting of the 2nd Session (2023.05.04) | 1.Financial statements for the first quarter of 2023. | ✓ | None |
| | 2. Revision of the Company’s “Internal Control System—Computer Cycle”. | ✓ | |
| | Resolution Results of the Audit Committee: Adopted by all members of the Audit Committee | | |
| | The Company's Response to the Resolution Results of the Audit Committee: Approved by all the Directors present | | |
| The 9 th Meeting of the 2nd Session (2023.02.21) | 1.2022 Business Reports and Financial Statements. | ✓ | None |
| | 2.Proposal for the 2022 Loss Recovery Plan. | ✓ | |
| | 3.Proposal for the preparation of Statement of Internal Control System for 2022. | ✓ | |
| | 4. Formulate the "General Principles for Pre-Approval of Uncertain Service Policies". | ✓ | |
| | 5.Proposal for CPA's compensation and evaluation of independence and competency of CPAs. | ✓ | |
| | 6.Proposal for the changes in the original plan for capital increase in cash by private equity. | ✓ | |
| | 7.Apply for capital reduction to make up for losses. | ✓ | |
| | 8.Proposal for the issuance of common stock for capital increase in cash by private equity. | ✓ | |
| | Resolution Results of the Audit Committee: Adopted by all members of the | | |

| | |
|--|---|
| | Audit Committee |
| | The Company's Response to the Resolution Results of the Audit Committee: Approved by all the Directors present |

(III) Implementation Status and Deviations from the Corporate Governance
Best-Practice Principles for TWSE/TPEX Listed Companies and the Reasons

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|--|
| | Yes | No | Description | |
| I. Has the Company established and disclosed its Corporate Governance Best-Practice Principles based on the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies? | V | | The Company has established its Corporate Governance Best Practice Principles in accordance with law, and disclosed it on the Market Observation Post System (MOPS) and implemented accordingly? | No material deviation |
| II. Shareholding structure and shareholders' rights | | | | |
| (I) Does the Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly? | V | | (I) The Company has set up a spokesman system, and authorized the spokesman to handle matters as described on the left. | No material deviation |
| (II) Does the Company possess a list of its major shareholders with controlling power as well as the ultimate owners of those major shareholders? | V | | (II) The Company entrusts a professional stock transfer agency to handle the matter, and regularly declares and discloses the list of major shareholders and the ultimate controllers of major shareholders in accordance with the law, and maintains a good relationship with major shareholders to keep control at all times. | No material deviation |
| (III) Has the Company built and implemented a risk management system and a firewall between the Company and its affiliates? | V | | (III) For the internal control systems, the Company has formulated the management rules for related party transaction, as well as Transaction Procedures for Specific Companies, Group Enterprises and Related Persons and Subsidiary Management Measures, which explicitly provide standards for the operation, finance and business transactions of related companies to establish a risk control mechanism. | No material deviation |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|--|--|
| | Yes | No | Description | |
| (IV) Has the Company established internal rules prohibiting insider trading of securities based on undisclosed information? | V | | (IV) The Company has formulated its Ethical Corporate Management Best Practice Principles and Ethical Code of Conduct and implemented accordingly. | |
| III. Composition and responsibilities of the Board of Directors | V | | | |
| (I) Have a diversity policy and specific management objectives been adopted for the board and have they been fully implemented? | | | (I) The Company has established the diversity policy of board members and implemented accordingly, and formulated the performance evaluation method of the Board of Directors and annual implementation goals. The Board of Directors of the Company consists of seven male directors in total. Apart from having three independent directors, the Company invites professionals with different backgrounds to serve as directors and independent directors, with a view to diversifying the membership of the Board of Directors. In addition, the directors of the Company have the necessary knowledge, skills and accomplishments to perform business, and have different expertise in their respective fields, which is conducive to the development and operation of the Company. Please refer to P11-P13. | Except for the voluntary establishment of other functional committees, others are in compliance |
| (II) Has the Company voluntarily established other functional committees in addition to the remuneration committee and the Audit Committee? | | V | (II) The Company has not set up a remuneration committee or other functional committees other than the Audit Committee | |
| (III) Has the Company established rules and methodology for evaluating the performance of its Board of Directors, implemented the performance evaluations on an annual basis, and submitted the results of performance evaluations to the Board of Directors and used them as | V | | (III) The Board of Directors of the Company has formulated the Board performance Evaluation Method. And the Company has conducted and evaluated the performance of the Board of Directors in 2023, and submitted it to the Board of Directors (2024.02.22) for adoption and as a reference for directors' | |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|---|--|
| | Yes | No | Description | |
| reference in determining salary/compensation for individual directors and their nomination and additional office terms? (IV) Does the Company regularly evaluate the independence of the CPAs? | V | | remuneration and nomination for reappointment. (IV)3S held the 14th meeting of the second session of the Audit Committee on 2024.2.19. The audit quality indicators (AQIs) submitted by certified accountants have been adopted for the review of the independence, suitability, appointment and annual remuneration proposal of certified accountants. , as the basis for appointing a visa accountant. It has been confirmed that the accountant has no other financial interests or business relationship with the company except the fees for visa and financial and tax cases, and the accountant's family members do not violate the independence requirements. Since 2023,3S has required certified accountants to provide a "Detached Independence Statement" every year. At the same time, the company's financial department has assessed that the company's certified accountants meet the company's independence assessment standards (please refer to Table 1 for instructions), and are qualified to serve as the company's certified accountants . When the board of directors of the company discusses the independence and appointment of certified accountants, it also submits the personal resume of the accountants and the statement of independence of each accountant for the discussion of the board of directors to evaluate their independence. The latest assessment was passed by the Audit Committee on 2024.2.19 and submitted to the Board of Directors on 2024.2.22 | |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof |
|---|-----------------------|----|---|--|
| | Yes | No | Description | |
| | | | | |
| IV. Does the Company have in place an adequate number of qualified corporate governance officers and has it appointed a chief corporate governance officer with responsibility corporate governance practices (including but not limited to providing information necessary for directors and supervisors to perform their duties, aiding directors and supervisors in complying with laws and regulations, organizing board meetings and annual general meetings of shareholders as required by law, and compiling minutes of board meetings and annual general meetings)? | V | | <p>The Company has set up a corporate governance working group, with the President as the convenor and 1 to 3 members from the management office, legal affairs, secretariat, and audit office. The finance/accounting director will also serve as the corporate governance director in May 4, 2023.</p> <p>The main responsibilities of the working group are as follows:</p> <p>(I) Develop and plan an appropriate company system and organizational structure to promote the independence of the Board of Directors, the Company's transparency and compliance with laws and regulations, and the implementation of internal audit and internal control.</p> <p>(II) The working group shall consult the directors prior to the board meeting to plan and draw up the agenda, and shall notify all directors to attend at least 7 days prior to the meeting and provide sufficient materials for the directors to understand the contents of the relevant topics; If the topic content is related to a stakeholder and should be recused by the stakeholder as appropriate, the counterpart party will be reminded in advance.</p> <p>(III) Register the date of shareholders' meeting every year in accordance with the law; prepare the Notice of Meeting, the Meeting Handbook, and the minutes to the Shareholders' Meeting within the statutory period, and handle the registration of change after the amendment of Articles of Incorporation or the reelection of directors.</p> | No material deviation |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|--|--|
| | Yes | No | Description | |
| V. Has the Company established channels for communicating with its stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) and created a stakeholders section on its company website? Does the Company appropriately respond to stakeholders' questions and concerns on important corporate social responsibility issues? | V | | The Company has set up a spokesman system, a website and other channels to provide the information about the Company's operations and finance, and also set up an E-mail address to properly handle the opinions of interested parties by a designated personnel. | No material deviation |
| VI. Has the Company appointed a professional shareholder services agent to handle matters related to its shareholder meetings? | V | | The Company appoints Master Link Securities Corp. as the agent for its stock affairs. | No material deviation |
| VII. Information disclosure (I) Has the Company established a corporate website to disclose information regarding its financials, business, and corporate governance status? (II) Does the Company use other information disclosure channels (e.g., maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)? (III) Does the Company publish and report its annual financial statements within two months after the end of the fiscal year, and publish and report its financial reports for the first, second, and third quarters as well as its operating statements for each month before the specified deadlines? | V V V | | (I) The Company has set up a website that is maintained and updated by dedicated personnel, and disclose information regarding its financials, business, and corporate governance status on the MOPS. (II) The Company has designated the management office to be responsible for the collection and disclosure of company information in accordance with laws and regulations, and set up a spokesman and acting spokesman. The company website is available in Chinese and English, with links to investor conferences available for reference. (III) The Company published and reported its annual financial report within the time limit specified, and did not do so before two months after the end of the fiscal year. And the financial reports of the first, second and third quarters and the revenue of each month are earlier than the specified deadline. | No material deviation |
| VIII. Has the Company disclosed other information to facilitate a better | V | | (I) Employee rights and interests: The Company has always treated | |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|--|--|
| | Yes | No | Description | |
| understanding of its corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' continuing education, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing liability insurance for directors and supervisors)? | | | <p>employees in good faith and protected the legitimate rights and interests of employees in accordance with the Labor Standards Act.</p> <p>(II) Employee care: The Company has established a good relationship of mutual trust with its employees through a welfare system that enriches and stabilizes the lives of employees and a good education and training system. Such as: Establish an employee benefit committee to regularly organize domestic and international travel, year-end party and various club activities, with a view to winning honor, professionalism and mutual trust in these activities; Encourage employees to participate in internal and external training to enhance relevant knowledge; Pay attention to the health of employees by taking out group insurance and arranging regular staff health check-ups; Organize regular staff discussions and attach importance to labor-management relations; Develop employee retirement measures to stabilize employees' retirement life.</p> <p>(III) Investor relations: Set up an investor inquiry website and a dedicated contact hotline to handle shareholder inquiries and suggestions.</p> <p>(IV) Supplier relations: The Company has always maintained a good cooperative relationship with suppliers.</p> <p>(V) Rights of stakeholders: The Company has set a spokesman to communicate with investors and stakeholders, and has made public information in accordance with the law and formulated relevant measures to promote corporate</p> | <p>No material deviation</p> <p>No material deviation</p> |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|-----------------|-----------------------|----|--|--|
| | Yes | No | Description | |
| | | | <p>governance, so as to protect the basic rights and interests of investors and fulfill the Company's responsibilities to shareholders.</p> <p>(VI) Continuing education of Directors: Please refer to table 2 below for the information of continuing education of Directors in 2023. The directors of the Company have a certain professional background and practical experience in their personal areas of expertise. The Company arranges relevant courses for directors in line with the trends of the laws and regulations of Taiwan.</p> <p>(VII) Implementation of risk management policies and risk measurement standards: The Company's risk assessment mainly focused on the Company itself. The Risk Management Measures was adopted by the Board of Directors in 2020 as the highest guiding principle of the Company's risk management. Each management unit regularly assesses and reviews risk matters and reports to the President, who shall then summarize major risk matters and report to the Board of Directors on a regularly basis. The Company conducts prevention and control of possible risks in the process of operation and management, and formulates relevant early warning measures. In addition, the Company conducts risk assessments related to the Company's operations based on the principle of materiality, as a reference for the Company's risk management and operation strategies to effectively identify, measure and control the risks of the Company and to control the risks arising from the operating activities within an acceptable range.</p> <p>(VIII) Implementation of customer</p> | |

| Evaluation Item | Implementation Status | | | Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|---|--|
| | Yes | No | Description | |
| | | | <p>policies: The Company maintains a good and stable relationship with each customer to create a stable and continuous environment for the Company's profit and sustainable operation.</p> <p>(IX) Liability insurance for Directors and Supervisors: The Company has taken out liability insurance for Directors and Supervisor in the amount of US\$10,000,000 in 2023 for an insurance period from January 1, 2023 to January 1, 2024.</p> | |
| <p>IX. Please describe improvements that have already been made based on the Corporate Governance Evaluation results released for the most recent fiscal year by the Corporate Governance Center, Taiwan Stock Exchange, and specify the priority enhancement objectives and measures planned for any matters still awaiting improvement.</p> <p>The Company conducts self-assessment for the corporate governance evaluation items every year, and makes improvements year by year based on the indicator evaluation items. No significant deficiencies were found.</p> | | | | |

Table (1) Accountant Independence Assessment Report

| Evaluation Items | Independence | |
|---|--------------|---|
| | Y | N |
| 1. Situations that have direct or significant indirect financial interests with 3S that affect independence. | ✓ | |
| 2. Has not served as a director, supervisor, or other position that directly and significantly affects this audit case at present or in the past two years. | ✓ | |
| 3. There is no defense of the position or opinion of 3S and its related parties, which may cause independence to be questioned. | ✓ | |
| 4. There is no close relationship with 3S and its related persons, directors, and managers, and it may be excessively concerned about or sympathetic to the interests of customers. | ✓ | |
| 5.No received or felt the intimidation from 3S, and not be able to maintain objectivity and clarify professional doubts. | ✓ | |
| 6. During the period of the 2023 financial statements of the Republic of China, there was no non-audit service provided to 3S that may affect the detached independence. | ✓ | |
| 7. Obtain an independent statement from an accountant. | ✓ | |
| 8. Other circumstances that may affect detached independence. | ✓ | |

Table (2) Continuing education of Directors:

| Title | Name | Date | Training Institution | Course Name | Training Hours |
|----------------------|---|------------|---|---|----------------|
| Director | Kingston Technology Corporation Representative: Albert Yang | 2023/07/04 | Taiwan Stock Exchange | 2023 Cathay Sustainable Finance and Climate Change Summit Forum. | 6 |
| Independent Director | Cheermore Huang | 2023/07/04 | Taiwan Stock Exchange | 2023 Cathay Sustainable Finance and Climate Change Summit Forum. | 3 |
| | | 2023/07/27 | Corporate Management and Sustainable Development Association of the Republic of China | Business secret protection and insider trading prevention and response methods. | 3 |
| | | 2023/10/26 | Corporate Management and Sustainable Development Association of the Republic of China | Sustainable Corporate Governance-Gender Equality and Diversified Decision-Making. | 3 |
| Independent Director | Ken Lin | 2023/07/04 | Taiwan Stock Exchange | 2023 Cathay Sustainable Finance and Climate Change Summit Forum. | 6 |

| | | | | | |
|-------------------------|-----------|------------|--|---|---|
| Independent Director | James Hou | 2023/09/14 | TIRI Taiwan Investor Relations Association. | Taiwan Enterprise M&A Practice. | 3 |
| | | 2023/11/14 | Chinese Independent Directors Association | The group's M&A strategy and post-investment management. | 3 |

(IV) Composition and Implementation Status of the Remuneration Committee

1. Information on Remuneration Committee Members

| Qualifications | | Professional Qualification and Work Experience | Independence Analysis | Number of Other Public Companies where the Individual Concurrently Serves as a Remuneration Committee Member |
|---------------------------------|-----------------|--|--|--|
| Capacity (Note 1) | Name | | | |
| Independent Director (Convenor) | Cheermore Huang | Mr. Cheermore Huang has been a Director of INT TECH (HK) Co., Ltd. Since 2019 and has served as the Chairman and President of ILI Technology Corp. He holds a master's degree from the Institute of Electrical Engineering, National Tsing Hua University. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. | Serve as an independent director, conforming to the conditions of independence, including but not limited to the fact that he, his spouse or his relatives within the second degree are not directors, supervisors or employees of the Company or its affiliated enterprises; shareholding of 160,810 shares, accounting for 0.28%; not being a director, supervisor or employee of a company having a specified relationship with the Company; no pay received by for any services such as business, legal, financial, or accounting services provided to the Company or any affiliate thereof within the past 2 years. | None |
| Independent Director | Ken Lin | Mr. Ken Lin has been the President of T.N.C. Industrial Co., Ltd. since 2018, the Director of OPALS Chemical Technology Ltd. before, and also serves as the President of Foshan T.N.C.Resin Co., Ltd. He holds a master's degree from the Institute of College of Management, Fu Jen Catholic University, as well as Taiwan and USA CPA licenses. He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. | Serve as an independent director, conforming to the conditions of independence, including but not limited to the fact that he, his spouse or his relatives within the second degree are not directors, supervisors or employees of the Company or its affiliated enterprises; Shareholding of 55,177 shares, accounting for 0.10%; not being a director, supervisor or employee of a company having a specified relationship with the Company; no pay received by for any services such as business, legal, financial, or accounting services provided to the Company or any affiliate thereof | None |

| | | | | |
|----------------------|-----------|--|---|------|
| | | | within the past 2 years. | |
| Independent Director | James Hou | Mr. James Hou has been the Chairman of 94BOT Co., Ltd. And Bo Ku Network Co., Ltd since 2017, 1984 Co., Ltd. Chairman, Metaedge Corporation Consultant , and serves as the Assistant Vice President for Innovative Applications of IBM Taiwan, and Vice President, Provision Information Co., Ltd. He holds a master's degree from both the Information Science of Ohio State University and Department of Computer Science of National Tsing Hua University He has the ability in the areas of commerce, technology, finance and operation judgment, and has industry experience required. (Note 1) | Serve as an independent director, conforming to the conditions of independence, including but not limited to the fact that he, his spouse or his relatives within the second degree are not directors, supervisors or employees of the Company or its affiliated enterprises; does not hold shares of the Company; not being a director, supervisor or employee of a company having a specified relationship with the Company; no pay received by for any services such as business, legal, financial, or accounting services provided to the Company or any affiliate thereof within the past 2 years. | None |

2. Operations of the Remuneration Committee

(1) The Company's Remuneration Committee consists of 3 members.

(2) Current Term: From July 8, 2021 to July 7, 2024. The Remuneration Committee held 2 meetings(A) in the most recent fiscal year, the qualifications and attendance of the committee members are shown as follows:

| Title | Name | Attendance in Person (B) | Attendance by Proxy | Rate of Attendance in Person (%) [B/A] | Remark |
|------------------|-----------------|--------------------------|---------------------|--|--------|
| Convenor | Cheermore Huang | 2 | 0 | 100 | None |
| Committee Member | Ken Lin | 2 | 0 | 100 | None |
| Committee Member | James Hou | 2 | 0 | 100 | None |

(3) The discussions and resolutions of the Remuneration Committee and the Company's response to the members' opinions:

| Remuneration Committee | Content of Motions | Resolution Results | The Company's Actions in Response to the Remuneration Committee's Opinions |
|--|---|---|--|
| The 7rd Meeting of the 5th Session(2024.02.19) | 1. The Company's 2023 annual incentive and reward proposal for managers. | Adopted by all members of the Audit Committee with consents | Adopted by the Board of Directors with consents and implemented in accordance with the resolution. |
| The 6rd Meeting of the 5th Session(2023.12.21) | 1.The performance target setting for the Company's managers for 2024. | Adopted by all members of the Audit Committee with consents | Adopted by the Board of Directors with consents and implemented in accordance with the resolution. |
| The 5rd Meeting of the 5th Session(2023.02.21) | 1. The Company's 2022 annual incentive and reward proposal for managers 2. The performance target setting for the Company's managers for 2023. | Adopted by all members of the Audit Committee with consents | Adopted by the Board of Directors with consents and implemented in accordance with the resolution. |

Other information required to be disclosed:

- I. If the Board of Directors does not accept, or amends, any recommendation of the remuneration committee, specify the board meeting date, meeting session number, content of the recommendation(s), the outcome of the resolution(s) of the Board of Directors, and the measures taken by the Company with respect to the opinions given by of the remuneration committee (e.g., if the salary/compensation approved by the board is higher than the recommendation of the remuneration committee, specify the difference(s) and the reasons):

None.

- II. With respect to any matter for resolution by the remuneration committee, if there is any dissenting or qualified opinion of a committee member that is on record or stated in writing, specify the remuneration committee meeting date, meeting session number, content of the motion, the opinions of all members, and the measures taken by the Company with respect to the members' opinion: None.

(V) Promotion of Sustainable Development – Implementation Status and Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons Thereof

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|---|
| | Yes | No | Description | |
| I. Has the Company established a governance framework for promoting sustainable development, and established an exclusively (or concurrently) dedicated unit to be in charge of promoting sustainable development? Has the Board of Directors authorized senior management to handle related matters under the supervision of the board? | V | | The Company has set up a "Sustainable Development Group", chaired by the President. Each department complies with the Company's Sustainable Development Best Practice Principles and other relevant policies to implement their responsibilities for sustainable development, and reports to the board on a quarterly basis. | No material deviation |
| II. Does the Company conduct risk assessments of environmental, social and corporate governance (ESG) issues related to the Company's operations in accordance with the materiality principle, and formulate relevant risk management policies or strategies? | V | | The Company's risk assessment mainly focused on the Company itself. The Risk Management Measures was adopted by the Board of Directors in 2020 as the highest guiding principle of the Company's risk management. Each management unit regularly assesses and reviews risk matters and reports to the President, who shall then summarize major risk matters and report to the Board of Directors on a regularly basis. The Company conducts prevention and control of possible risks in the process of operation and management, and formulates relevant early warning measures. In addition, the Company conducts risk assessments related to the Company's operations based on the principle of materiality, as a reference for the Company's risk management and operation strategies to effectively identify, measure and control the risks of the Company and to control the risks arising from the operating activities within an acceptable range. | No material deviation |
| III. Environmental issues (I) Has the Company set an environmental management system designed to industry characteristics? | V | | (I) The Company attaches great importance to environmental protection management and maintenance, and has formulated relevant | No material deviation |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|---|---|
| | Yes | No | Description | |
| | | | management measures according to the characteristics of the industry. The Company's main products are integrated circuit (IC) control chips, which are produced by outsourced processing. In addition to entrusting the production to a qualified processing third party that has passed the inspection and meets the requirements of environmental protection laws and regulations, the Company also requires such third party to meet the environmental protection testing requirements in terms of production process. In addition, in response to the implementation of the European Union Directive on the Restriction of Hazardous Substances (RoHS), the Company has designated special personnel to be responsible for responding to RoHS-related requirements and implementing countermeasures since 2006. | No material deviation |
| (II) Does the Company endeavor to use energy more efficiently and to use renewable materials with low environmental impact? | V | | (II) The Company strives to reduce packaging materials and reuse packaging filling materials to reduce waste generation, reduce environmental load and achieve sustainable use of resources. | No material deviation |
| (III) Has the Company evaluated the potential risks and opportunities posed by climate change for its business now and in the future and adopted relevant measures to address them? | V | | (III) The Risk Management Measures was adopted by the Board of Directors in 2020 as the Company's highest guiding principle in managing climate change risk. Each management unit regularly assesses and reviews climate change risk issues and reports to the President, who shall then report to the Board of Directors on a regularly basis. In line with the government's 2050 net zero carbon emission target, the "Sustainable Operation Development Team" was established on March 31, 2022. | No material deviation |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|------|-----------------------|----|---|---|
| | Yes | No | Description | |
| | | | <p>The Company's current assessment in response to climate change focused on the increase in the price of greenhouse gas emissions. The Company takes action plans to reduce the consumption of natural resources, including improving product energy efficiency, green supply chain management, raw material and waste management, product packaging reduction and recycling, cloud office, reducing operating carbon dioxide concentration and improving energy efficiency in line with the industry. The Company also attaches great importance to the management and maintenance of environmental protection, and regularly carries out promotion and requires the cooperation of all units. The policy is as follows:</p> <ol style="list-style-type: none"> 1. Full use of paper - advocate double-sided printing to reduce logging and the degree of greenhouse effect. 2. Save energy - advise to turn off lights, turn off air conditioners when leaving and save water, and use energy-saving lamps. 3. Garbage classification - carry out garbage classification and resource recovery in accordance with the business waste control regulations of Environmental Protection Administration. 4. No smoking policy - promote tobacco hazard control law and enforce no-smoking policy in public places. 5. The Company pays attention to the cleanliness of the relevant internal and external environment, and strengthens the internal and external publicity of | No material deviation |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|------|-----------------------|----|--|---|
| | Yes | No | Description | |
| | | | environmental maintenance, so as to develop a sustainable development environment. | |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof | | | | | | | | | | | | | | | | | | |
|---|-----------------------|-------|--|---|--------------------------|-----|-----|-------|--------------------------|------|-------|-------|-------|-------|-----------|------|--------|-------|----------|----------|-----------|-----------------------|
| | Yes | No | Description | | | | | | | | | | | | | | | | | | | |
| (IV) Did the Company collect data for the past two years on greenhouse gas emissions, volume of water consumption, and the total weight of waste, and establish policies for greenhouse gas reduction, reduction of water consumption, or management of other wastes? | V | | <div>(IV) The Company's greenhouse gas emissions, volume of water consumption and total weight of waste in the past two years are as follows: Inventory scope and category: The boundary of the inspection is the office area of the company. <u>Category one:</u> Statistics on CO2 emissions of official vehicles in 2022 and 2023: Year Total emissions (metric tons) 2022 2.930 2023 2.483 <u>Category two:</u> Statistics on CO2 emissions of purchased water and electricity in 2022 and 2023: Year Total emissions (t) 2022 159.438 2023 139.484 Statistics of water consumption in 2022 and 2023: Year Water consumption (degrees) 2022 1,005 2023 1,111 <u>3S is a non-manufacturing company.</u> <u>Statistics of waste recycling in 2022 and 2023:</u><table border="1"><thead><tr><th>Year</th><th>PC</th><th>LCD</th><th>PCB</th><th>Metal</th><th>Waste ICs and Components</th></tr></thead><tbody><tr><td>2022</td><td>5 Set</td><td>5 Set</td><td>0 (t)</td><td>0 (t)</td><td>0.153 (t)</td></tr><tr><td>2023</td><td>18 Set</td><td>0 Set</td><td>0.01 (t)</td><td>0.03 (t)</td><td>0.123 (t)</td></tr></tbody></table> (The above CO2 emissions are converted according to the power emission coefficient announced by the Bureau of Energy. The Company's greenhouse gas emissions inventory has not verified by an external third party, which is a self-managed statistics.)</div> | Year | PC | LCD | PCB | Metal | Waste ICs and Components | 2022 | 5 Set | 5 Set | 0 (t) | 0 (t) | 0.153 (t) | 2023 | 18 Set | 0 Set | 0.01 (t) | 0.03 (t) | 0.123 (t) | No material deviation |
| Year | PC | LCD | PCB | Metal | Waste ICs and Components | | | | | | | | | | | | | | | | | |
| 2022 | 5 Set | 5 Set | 0 (t) | 0 (t) | 0.153 (t) | | | | | | | | | | | | | | | | | |
| 2023 | 18 Set | 0 Set | 0.01 (t) | 0.03 (t) | 0.123 (t) | | | | | | | | | | | | | | | | | |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|---|
| | Yes | No | Description | |
| IV. Social issues (I) Has the Company formulated relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions? | V | | <p>The company's goal is to reduce greenhouse gas CO2 emissions year by year.</p> <p>The goal of carbon reduction is achieved through measures such as replacement of energy-saving electrical equipment and appropriate air-conditioning temperature. In 2023, 75 LED lamp tubes and a set of LED lamps were replaced.</p> <p>The Company abides by the relevant labor laws and regulations and has developed relevant management procedures with reference to the Universal Declaration of Human Rights formulated by the United Nations. Relevant issues in practice include:</p> <ol style="list-style-type: none"> 1. No operating locations or suppliers that violate or seriously endanger freedom of association and collective bargaining. 2. No operating locations and suppliers with significant risk of child labor. 3. No operating locations and suppliers with significant risk of forced or compulsory labor incidents. 4. No incidents in violating the rights of aborigines. 5. No human rights complaints. 6. No discrimination occurred. 7. No violation of laws and regulations related to the social issues, and no fines. 8. No significant physical or potential negative impact of the supply chain on human rights has occurred. <p>As part of the global electronics industry supply chain, the Company takes the planning and implementation of the Code of Conduct for Responsible Business Alliance as its top priority, and treat all colleagues with dignity and respect. Meanwhile, we urge and require suppliers who have direct contact with the Company</p> | <p>No material deviation</p> <p>No material deviation</p> |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|---|
| | Yes | No | Description | |
| (II) Has the Company established and implemented reasonable employee welfare measures (include salary/compensation, leave, and other benefits), and are business performance or results appropriately reflected in employee salary/compensation? | V | | <p>to follow the Code of Conduct for Responsible Business Alliance, hoping to enhance the social responsibility of the industry and the awareness of world citizens through the common efforts of the entire supply chain.</p> <p>(II) Employee salary/compensation: The Company conducts employee performance appraisal every year, with department and individual performance results, and manages employee rewards, punishments and promotions.</p> <p>(1)Employee benefit plans: The Company has set up a system involving various employee benefits, health checks, continuing education, training and retirement for employees to stimulate the morale and ensure the work progress. The Company has set up an employee welfare committee to make planing for various quality benefits, such as travel allowance, birthday gift coupon, maternity/marriage/burial allowances, etc.</p> <p>(2)Diversity and equality in workplace: The Company has achieved equal pay for equal work for men and women, provided equal promotion opportunities, and maintained over 7.5% women in executive positions, promoting sustainable and inclusive economic growth. In 2023, the Company' female employees accounted for 29.9% on average, and female executives accounted for 7.5 % on average.</p> <p>(3)Business performance is reflected in employee salary/compensation: The Company conducts a market salary survey every year, and adjusts</p> | <p>No material deviation</p> <p>No material deviation</p> |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|---|
| | Yes | No | Description | |
| | | | the salary according to the market salary level, economic trends and individual performance to maintain overall salary competitiveness. | |
| (III) Does the Company provide employees with a safe and healthy working environment, and implement regular safety and health education for employees? | V | | (III) The company emphasizes "people-oriented". The protective measures for the working environment and employees' personal safety are clearly stated in the relevant provisions of the labor safety and health code, including environmental requirements for fire protection, industrial safety and health, etc. In order to ensure that all colleagues can work safely in a good office environment, the company has set up a 24-hour access control system to control entry and exit, and conducts regular comprehensive fire equipment inspections and fire escape drills to ensure the safety of employees, and implements office disinfection and air-conditioning equipment inspection and maintenance to maintain good health. The Company had no employee occupational accidents or fires in 2023. | No material deviation |
| (IV) Does the Company establish effective career development and training plans for its employees? | V | | (IV) The Company organizes career development programs or educational training for employees from time to time, and provides online courses for employees and online learning platforms from external professional organizations to enhance employees' career skills. | No material deviation |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|---|---|
| | Yes | No | Description | |
| (V) Does the Company comply with the relevant laws and international standards with regards to customer health and safety, customer privacy, and marketing and labeling of products and services, and implement consumer protection and grievance policies? | V | | (V) The Company is in compliance with relevant laws and regulations as well as international standards when it comes to marketing and labeling of products and services. | No material deviation |
| (VI) Has the Company formulated supplier management policies requiring suppliers to comply with relevant regulations on issues such as environmental protection, occupational safety and health, or labor rights, and what is the status of their implementation? | V | | (VI) The Company has established management policies related to suppliers, such as Suppliers' Environmental Prohibited Substances Management Regulations and Environmental Restricted Substances Control Procedures. For all products designed, manufactured and sold by the Company, the products produced by suppliers are regulated to be in compliance with the regulations on the restriction of prohibited and restricted substances and the recognition of green products of suppliers. The Company regularly commissions qualified ISO 17025-accredited laboratories for testing of returned product samples every year to ensure the compliance with laws and regulations of products. | No material deviation |
| V. Does the Company refer to international reporting standards or guidelines when preparing its sustainability report and other reports disclosing non-financial information? Does the Company obtain third party assurance or certification for the reports above? | | V | The Company has not prepared any corporate social responsibility report or other reports. | No preparation |
| VI. If the Company has adopted its own sustainable development best practice principles based on the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, please describe any deviation from the principles in the Company's operations: The Company has formulated its Corporate Social Responsibility Best Practice Principles, Ethical Corporate Management Best Practice Principles, Rules of Procedure for Board of Directors Meetings, Remuneration Committee Charter, Rules of Procedure for Shareholders Meetings, the rules of shareholders' meeting, Internal Control System, Implementation Rules for Internal Audit, Procedures for Acquisition and Disposal of Assets, Procedures for Lending Funds to Others, etc. to follow. | | | | |

| Item | Implementation Status | | | Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|-------------|---|
| | Yes | No | Description | |
| VII. Other important information to facilitate better understanding of the Company's promotion of sustainable development: Solid State always believes that, as a member of social citizens, an enterprise must fulfill its civic responsibilities and incorporate it into the operation mechanism of our daily operation. In practice, Solid State fulfills its civic responsibility through corporate commitment, social care and employee care. Corporate commitment: We improve corporate governance and take full responsibility for important stakeholders by operation and auditing systems such as the Board of Directors, audit committee and remuneration committee; We are committed to continuous innovation in the areas of design, manufacturing quality and reliability through a commitment to quality control that has become an important part of our corporate culture. We are responsible for our customers and the environment. 1. In order to promote employment for the disabled and improve employee welfare, the Company has cooperated with visually impaired masseurs to provide massage services through the assistance of Zhubei Employment Service Center. Provide a comfortable environment and high privacy personal space, so that colleagues can enjoy relaxing body massage services. 2. In 2023, there were 720 person-time, about 360 hours for using this service. The amount of cooperation totaled NT\$359,000. | | | | |

(VI) Ethical Corporate Management – Implementation Status and Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons Thereof

| Evaluation Item | Implementation Status | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|---|--|
| | Yes | No | Description | |
| I. Establishment of ethical corporate management policies and programs (I) Does the Company have an ethical corporate management policy approved by its Board of Directors, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team? | V | | (I) The Company has formulated its Ethical Corporate Management Best Practice Principles, which is posted on the company website. It stipulates that all directors, managerial officers, employees and trustees of the Company shall uphold the principle of ethical management and actively implement the concept of ethical corporate management. | No material deviation |
| (II) Whether the Company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates, within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in Article 7, paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/TPE Listed Companies? | V | | (II) The Company has clearly set out in its Ethical Corporate Management Best Practice Principles the situation of preventing unethical conduct and the relevant operating procedures and behavior guidelines. The Company has also set out a whistleblowing system and procedures in the Ethical Corporate Management Best Practice Principles, and implemented accordingly. | No material deviation |
| (III) Does the Company clearly set out the operating procedures, behavior guidelines, and punishment and appeal system for violations in the unethical conduct prevention program, implement it, and regularly review and revise the plan? | V | | (III) The Company has clearly set out in its Ethical Corporate Management Best Practice Principles the situation of preventing unethical conduct and the relevant operating procedures and behavior guidelines. The Company has also set out a whistleblowing system and procedures in the Ethical Corporate Management Best Practice Principles. And the annual review procedures are in line with the | No material deviation |

| Evaluation Item | Implementation Status | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|--|
| | Yes | No | Description | |
| | | | amendments of regulations and the actual operation of the Company. | |
| II. Ethical management practice | | | | |
| (I) Does the Company assess the ethics records of those it has business relationships with and include ethical conduct related clauses in the business contracts? | | V | (I) The Company has assessed the ethics records of those it has business relationships with but did not include ethical conduct related clauses in the business contracts, | No material deviation |
| (II) Has the Company set up a dedicated unit to promote ethical corporate management under the Board of Directors, and does it regularly (at least once a year) report to the Board of Directors on its ethical corporate management policy and program to prevent unethical conduct and monitor their implementation? | V | | (II) To improve the management of corporate social responsibility, the President's office designates appropriate units to be responsible for the amendment, implementation, interpretation, consulting service and notification of the procedures or systems of ethical corporate management. And the annual review procedures are in line with the amendments of regulations and the actual operation of the Company. | |
| (III) Has the Company established policies to prevent conflict of interests, provided appropriate communication and complaint channels, and properly implemented such policies? | V | | (III) The Company has established a Code of Ethical Conduct to provided policies of interest conflicts prevention, as well as appropriate representation channels, and implement them. | |
| (IV) Does the Company have effective accounting and internal control systems in place to enforce ethical corporate management? Does the internal audit unit follow the results of unethical conduct risk assessments and devise audit plans to audit compliance with the systems to prevent unethical conduct or hire outside accountants to perform the audits? | V | | (IV) In order to implement ethical management, the Company has formulated its Ethical Corporate Management Best Practice Principles, Code of Ethical Conduct and Work Rules, which specifically stipulate the matters to be paid attention to by directors, managerial officers, employees and persons with substantial control in the performance of their business, including but | |

| Evaluation Item | Implementation Status | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---------------------------------------|-----------------------|----|---|--|
| | Yes | No | Description | |
| | | | not limited to prohibition of receiving improper benefits, prohibition of illegal political donations, no business dealings with persons suspected of risks in ethical management, improper charitable donations and the confidentiality obligation of trade secrets and sensitive information obtained for business activities, and compliance with laws and regulations in performing business activities, etc. During the discussion and voting of each board meeting, the attending directors were informed to pay attention to recusal of interest. Regularly promote the education and training of insider trading to employees. The Company has set up complaint mailboxes on internal and external websites, and the audit office is responsible for accepting the investigation and tracking of complaints. In addition, the Company has established an effective accounting system and internal control system for business activities with high risk of unethical management. The audit unit is responsible for planning and executing the audit plan based on the risk assessment. In case of special circumstances, the Company will establish a separate project to audit. Up to now, the Auditing Office has not received reports or complaints of dishonesty or immorality. | No material deviation |
| (V) Does the Company provide internal | V | | (V) The Company attaches great | |

| Evaluation Item | Implementation Status | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|-----------------------|----|--|--|
| | Yes | No | Description | |
| and external ethical corporate management training programs on a regular basis? | | | importance to the implementation of the principle of integrity for all employees in its daily business, and plans the "Information Environment and Information Security Promotion" course in the newcomer training course, emphasizing that tangible information equipment and intangible information assets should be properly kept and kept confidential to avoid leakage of company secrets. The Company also regularly implements "insider trading promotion" that the use the unpublicized information to engage in insider trading or disclose it to others is not allowed. The all-staff meeting held on 112.12.29 and the letter issued on 113.3.21 both announced the promotion of "insider trading" to all employees. In addition, in the first quarter of each year, insider trading promotion is regularly conducted to the directors and the board of directors is reported to the board of directors on the implementation of internal major information processing procedures. situation. | |
| III. Implementation of complaint procedures (I) Has the Company established specific whistle-blowing and reward procedures, set up conveniently | V | | (I) The Company has established a Code of Ethical Conduct, and encourages employees to report to Supervisors upon suspicion | No material deviation |

| Evaluation Item | Implementation Status | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|---|-----------------------|----|---|--|
| | Yes | No | Description | |
| accessible whistle-blowing channels, and appointed appropriate personnel specifically responsible for handling complaints received from whistle-blowers? | | | or discovery of any activity in violation of a law or regulation or the code of ethical conduct. In addition, in case of any director, independent director or manager violating the code, the independent director shall notify the chairman, and the chairman shall authorize appropriate personnel to conduct an audit, and report the audit results to the Board of Directors for resolution. | No material deviation |
| (II) Has the Company established standard operation procedures for investigating the complaints received, follow-up measures taken after investigation, and mechanisms ensuring such complaints are handled in a confidential manner? | V | | (II) In accordance with the reporting system as provided in Article 21 of the Ethical Corporate Management Best Practice Principles, any employee who discovers any illegal or ethical behavior may present it to the independent director. The Company will also makes every effort to protect the safety of the informant, and the follow-up measures and relevant confidentiality mechanisms to protect them from retaliation. | |
| (III) Has the Company adopted proper measures to protect whistle-blowers from retaliation for filing complaints? | V | | (III) The Company strengthens the promotion of moral concept, encourages employees to report the behavior violating laws and regulations. Whistle-blowers will be fully protected by the Company from retaliation for filing complaints. | |
| IV. Strengthening information disclosure Does the Company disclose its ethical corporate management policies and the results of their implementation on its website and the Market Observation Post System (MOPS)? | V | | The Company has developed its Ethical Corporate Management Best Practice Principles and disclosed it on the company website. | No material deviation |
| V. If the Company has adopted its own ethical corporate management best practice principles based on the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, please | | | | |

| Evaluation Item | Implementation Status | | | Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof |
|--|---|----|-------------|--|
| | Yes | No | Description | |
| describe any deviations between the principles and their implementation: None. | | | | |
| VI. | Other important information to facilitate a better understanding of the status of operation of the Company's ethical corporate management policies: For relevant information about the Company's Ethical Corporate Management Best Practice Principles, please refer to the Market Observation Post System (MOPS) or the company website. | | | |

(VII) The Company has provided channels for inquiries of the Corporate Governance Best Practice Principles and related regulations: Please refer to the company website.

Website: <http://www.3system.com.tw/zh-tw/investor/rule>

(VIII) Other significant information that will provide a better understanding of the state of the Company's implementation of corporate governance:

The Company continues to invest resources to strengthen corporate governance operations, and set up a governance zone on the Company website to explain the state of corporate governance, attached with corporate governance related laws and regulations for inquiry and download, and immediately discloses major announcements.

Website: <http://www.3system.com.tw/zh-tw/investor/rule>

(IX) Status of Implementation of Internal Control System

1. Internal Control Statement

Solid State System Co., Ltd.

Statement on Internal Control System

Date: Feb 22, 2024

According to the self-evaluation results of internal control system by the Company in 2023, we hereby states as follows:

- I. The Company acknowledges that it is the responsibility of the Board of Directors and managerial officers to establish, implement, and maintain the established internal control system. The internal control system is designed to provide reasonable assurance for the effectiveness and efficiency of the operations (including profitability, performance and protection of assets), reliability, timeliness, and transparency of reporting, and compliance with applicable laws and regulations.
- II. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its 3 stated objectives above. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond control. Nevertheless, the internal control system contains self-monitoring mechanisms, and the Company takes immediate remedial actions in response to any identified deficiencies.
- III. The Company makes judgments on whether the design and implementation of the internal control system are effective in accordance with the judgments items of effectiveness of internal control system specified in the Regulations Governing Establishment of Internal Control Systems by Public Companies (hereinafter referred to as "the Regulations"). The Regulations are made to examine the following five factors during the management and control process: (1) control environment, (2) risk assessment and response, (3) control activities, (4) information and communication, and (5) supervision. Each key component includes several items. Please refer to the Regulations for the aforementioned items.
- IV. The Company has evaluated the design and operating effectiveness of the internal control system according to the Regulations.
- V. In accordance with the aforementioned evaluation, the Company has found that the design and implementation of the internal control system (including the assessment and management of subsidiaries), as of December 31, 2023, including the efficacy of understanding operations, the efficiency of achievement of objectives, reliability in reporting, timeliness, and compliance with the relevant guidelines and laws, are effective and can reasonably provide assurance of the aforesaid goals.
- VI. This statement is an integral part of the Company's annual report and prospectus and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This statement has been approved on Feb 22, 2024 by the Board of Directors, and out of the 7 Board members in attendance, none has objected to this statement and all consented to the content expressed herein.

Solid State System Co., Ltd.

Chairman: Jeffrey Lin (signature and seal)

President: Tim Hu (signature and seal)

2. Where a CPA has been entrusted to carry out a special audit of the internal control system: None.

(X) Any legal penalty enacted upon this Corporation and its personnel, or any penalty, major defects, and state of improvements enacted by this Corporation upon its personnel for violating the rules of the ICS during the most recent year up to the publication date of this report: None.

(XI) Material Resolutions of A Shareholders Meeting or A Board of Directors Meeting During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication Date of the Annual report:

1. 2023 Shareholders' Meeting

| Resolutions of Shareholders Meetings | Implementation Status |
|---|--|
| <p>Proposals matters:</p> <p>1.To accept the 2022 Business Report and Financial Statements.</p> <p>2.To accept the 2022 Deficit Compensation Statement</p> <p>Discussion matters:</p> <p>1. Apply for capital reduction to make up for losses</p> <p>2.To approve the capital increase through the private placement of 3S common shares.</p> | <p>Proposals:</p> <p>1.The 2022 Financial Statements of the Company, including the Consolidated Financial Statements, were audited by independent auditors, Ms. Lu Qian-Hui and Mr. Yu Wan-Yuan of KPMG.Also the Business Report and Financial Statements have been approved by the Board and examined by the Audit Committee of the Company. Adopted by voting.</p> <p>2.The net loss of the Company for year 2022 is in the amount of NT\$156,558,681and the accumulated deficit is in the amount of NT\$273,066,139. Losses will not be made up for the time being.Adopted by voting.</p> <p>Discussions:</p> <p>1. The company completed the capital reduction on August 28, 2023 to make up for all losses.New shares were issued and traded on the OTC market.</p> <p>2. The company's board of directors approved the private placement of 7,200,000 ordinary shares on November 2, 2023, and delivered the private placement shares on January 12, 2024.</p> |

2. Board meetings in 2023 and during the current fiscal year up to the date of publication of the annual report

| Session | Matters Specified in Article 14-3 of the Securities and Exchange Act | Independent Directors' Opinions | Resolutions of Board Meetings |
|--|--|---------------------------------|---|
| The 16th Meeting of the 9th Session (2024.02.22) | | None | The 2023 Business Report and Financial Statements |
| | ✓ | None | Change visa accountant. |
| | ✓ | None | Proposal for new CPA's compensation and evaluation of independence and competency of CPAs. |
| | | None | The 2023 Deficit Compensation Statement |
| | ✓ | None | Proposal for the preparation of Statement of Internal Control System for 2023 |
| | | None | Revise the company's "Code of Corporate Governance Practice". |
| | ✓ | None | Revision of the company's "accounting system". |
| | | None | Apply for a bank loan limit. |
| | ✓ | None | Application for bank forward foreign exchange quota. |
| | ✓ | None | The revisions to the original fundraising plan through the private placement of 3S common shares |
| | ✓ | None | The matter on the capital increase through the private placement of 3S common shares |
| | | None | Comprehensively re-elected the tenth board of directors. |
| | | None | The board of directors nominates directors (including independent directors) and reviews the list of independent director candidates. |
| | | None | Lifting the non-competition restrictions of the new directors and their representatives. |
| | | None | The convening of the 2024 general shareholders' meeting |
| | | None | The Company's 2023 annual incentive and reward proposal for managers |
| The 15th Meeting of the 9th Session (2023.12.30) | | None | Zhuhai Xingxin Storage Technology licensing contract signed. |
| The 14th Meeting of the 9th Session (2023.12.21) | ✓ | None | Proposal for the 2024 Annual Audit Plan. |
| | ✓ | None | Revised the company's "Internal Control System—Real Estate, Plant and Equipment Cycle". |
| | ✓ | None | Application for bank forward foreign exchange quota. |

| Session | Matters Specified in Article 14-3 of the Securities and Exchange Act | Independent Directors' Opinions | Resolutions of Board Meetings |
|--|--|---------------------------------|--|
| | | None | Business Plan and Budget for 2024. |
| | | None | The performance target setting for the Company's managers of managers for 2024. |
| The 13th Meeting of the 9th Session (2023.11.02) | | None | Financial statements for the third quarter of 2023. |
| | | None | Proposal for applying for renewal of bank forward exchange limit. |
| | ✓ | None | Appointment of the company's new internal audit manager. |
| | ✓ | None | Revised the "SP-100 Procurement and Payment Cycle" of the company's internal control system. |
| | ✓ | None | Handle matters related to the issuance price per share, total number of shares issued and other matters related to the private placement of common stock cash capital increase . |
| The 12th Meeting of the 9th Session (2023.08.03) | | None | Financial statements for the second quarter of 2023. |
| | | None | The Company's accounts receivable and other accounts receivable that are overdue for more than three months as of June 30, 2023 are planned to be classified as non-cash loans. |
| The 11th Meeting of the 9th Session (2023.05.04) | | None | Financial statements for the first quarter of 2023. |
| | ✓ | None | Revision of the Company's "Internal Control System—Computer Cycle". |
| | | None | Appointment case of the company's corporate governance officer. |
| The 10th Meeting of the 9th Session (2023.02.23) | | None | The 2022 Business Report and Financial Statements. |
| | | None | The 2022 Deficit Compensation Statement. |
| | ✓ | None | Proposal for the preparation of Statement of Internal Control System for 2022. |
| | ✓ | None | The formulation of "General Principles of pre-Approved Non-Assurance Service Policy". |
| | ✓ | None | Proposal for CPA's compensation and evaluation of independence and competency of CPAs |
| | | None | Ratification of organizational adjustment. |
| | | None | The Company's 2022 annual incentive and reward proposal for managers. |
| | | None | The performance target setting for the Company's managers of managers for 2023. |

| Session | Matters Specified in Article 14-3 of the Securities and Exchange Act | Independent Directors' Opinions | Resolutions of Board Meetings |
|---------|--|---------------------------------|---|
| | ✓ | None | The revisions to the original fundraising plan through the private placement of 3S common shares. |
| | ✓ | None | The capital reduction plan to offset the deficit. |
| | ✓ | None | Handled private placement cash capital increase and common stock issuance . |
| | | None | Proceedings to convene the 2023 Annual General Meeting of Shareholders. |

(XII) Where, During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report, A Director has Expressed A Dissenting Opinion with Respect to A Material Resolution Passed by the Board of Directors, and Said Dissenting Opinion Has Been Recorded or Prepared as A Written Declaration, the Principal Content Thereof: The signing of the Zhuhai Xingxin Storage Technology licensing contract at the 15th session of the 9th Board of Directors was approved by the chairman after consulting all the directors present. Six directors (including three independent directors) agreed, and one director objected. Opposition: The management team is asked to focus on the business and not initiate new projects that are not related to the business.

(XIII) A Summary of Resignations and Dismissals of the Chairman, President, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, Chief Corporate Governance Officer and Chief Research and Development Officer During the Most Recent Fiscal Year and During the Current Fiscal Year Up to the Date of Publication of the Annual Report: On April 20, 2023, internal audit director Zeng Jiawen resigned, and the new audit director, Sun Yuling, took office on August 22, 2023.

V. Information on CPA Professional Fees

(I) The non-audit fees paid by the Company to the CPA, to the accounting firm of the CPA, and/or to any affiliated enterprise of such accounting firm in 2023 are as follows:

Monetary unit: NT\$ thousand

| Name of Accounting Firm | Name of CPAs | Audit Period | Audit Fees | Non-audit Fees | Total | Note |
|-------------------------|--------------|--------------|------------|----------------|-------|------|
|-------------------------|--------------|--------------|------------|----------------|-------|------|

| | | | | | | |
|-------------|----------------------|---------------------------|-------|-----|-------|---|
| KPMG Taiwan | Grace Lu and Alen Yu | 2023.01.01~ 2023.12.31 | 1,515 | 750 | 2,265 | commercial registration, transfer pricing service fees, tax attestation fees and English financial report |
|-------------|----------------------|---------------------------|-------|-----|-------|---|

- (II) When the Company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed: None.
- (III) When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 10 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: None.

VI. Information on Replacement of CPAs:

(I) About the former accountant

| | | | |
|---|---|------------------------------------|--------|
| Replacement date | 2024/02/22 | | |
| Reason and explanation for replacement | To meet the needs of internal management. | | |
| Indicate that the appointer or accountant has terminated or refused to accept the appointment. | litigant | accountant | client |
| | Condition | | |
| | Voluntary termination of appointment | | ✓ |
| | No longer accept (continue) appointment | | |
| Opinion and reasons for audit reports other than unqualified opinions issued within the latest two years. | none. | | |
| Have any | | accounting principles or practices | |

| | | | |
|---|-------------|---|-----------------------------|
| disagreement with the issuer? | Yes | | Financial Report Disclosure |
| | | | Check scope or steps |
| | | | other |
| | No | ✓ | |
| | explanation | | |
| Other disclosures (Items 1-4 to 1-7 of Paragraph 6 of Article 10 of this Code should be disclosed) | none. | | |

(II) Regarding the successor accountant

| | |
|---|--------------------------------|
| Firm name | LAN-JAI CPAs Firm |
| Accountant's name | Jhan,Ding-Syun / Huang,Pei-Hua |
| Date of appointment | 2024/02/22 |
| Consultation matters and results regarding accounting treatment methods or accounting principles for specific transactions and possible issuance of opinions on financial reports before appointment. | none. |
| The successor accountant's written opinion on matters with which the predecessor accountant disagrees. | none. |

VII. The Company's Chairman, President or any Managerial Officer in Charge of Finance or Accounting Matters Has in the Most Recent Year Held a Position at the Accounting Firm of Its Certified Public Accountant or at an Affiliated Enterprise of Such Accounting Firm: None.

VIII. The State of Any Transfer of Equity Interests And/or Pledge of or Change in Equity Interests by a Director, Supervisor, Managerial Officer, or Shareholder with a Stake above More than 10 Percent During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report

(I) Changes in and Pledge of Shareholding of Directors, Managerial Officers, and Major Shareholders

Unit: In Thousands of Shares

| Title | Name | 2023 | | As of March 31, 2024 | |
|-----------------------------------|---------------------------------|---------------------------------|------------------------------------|---------------------------------|------------------------------------|
| | | Change in Number of Shares Held | Change in Number of Shares Pledged | Change in Number of Shares Held | Change in Number of Shares Pledged |
| Chairman | Jeffrey Lin | (851) | 0 | 0 | 0 |
| Director and President | Tim Hu | (173) | 0 | (9) | 0 |
| Director | Kioxia Corporation | (1,690) | 0 | 0 | 0 |
| | Representative: Hatanaka Kojiro | 0 | 0 | 0 | 0 |
| Director | Kingston Technology Corporation | (1,746) | 0 | 0 | 0 |
| | Representative: Albert Yang | 0 | 0 | 0 | 0 |
| Independent Director | Cheermore Huang | (284) | 0 | (1) | 0 |
| Independent Director | Ken Lin | (28) | 0 | 0 | 0 |
| Independent Director | James Hou | 0 | 0 | 0 | 0 |
| Vice President of R&D | Cheng Liou | (48) | 0 | 0 | 0 |
| Senior Vice President | Flink Chiu | (99) | 0 | 0 | 0 |
| Assistant Vice President | Richard Lin(Note) | (91) | 0 | 0 | 0 |
| Finance and Accounting Supervisor | Joepye Tseng | (17) | 0 | 0 | 0 |

Note: Richard Lin has been dismissed on 2023.1.11, And in 2023, capital reduction matters were handled.

(II) Where the counterparty involved in the transfer or pledge of the shareholder's equity is a related party: None.

IX. Relationship Information, if Among the Company's 10 Largest Shareholders Any One is A Related Party or A Relative Within the Second Degree of Kinship of Another

Unit: shares; March 31, 2024

| Name | Current Shareholding | | Shareholding by Spouse and Minor Children | | Shareholding by Nominees | | Name and Relationships of the Top 10 Shareholders Where They are Related Parties, Spouses, or Relatives within the Second Degree of Kinship to Another | | Remark |
|--|----------------------|--------------------|---|--------------------|--------------------------|--------------------|--|--------------------|--------|
| | Number of Shares | Shareholding ratio | Number of Shares | Shareholding ratio | Number of Shares | Shareholding ratio | Number of Shares | Shareholding ratio | |
| ZHI HAO JIANG | 5,684,386 | 9.97% | (Note) | (Note) | (Note) | (Note) | Non | None | None |
| YU LIEN CHIANG | 3,982,568 | 6.99% | (Note) | (Note) | (Note) | (Note) | Non | None | None |
| TA YU CHEN | 3,946,646 | 6.92% | (Note) | (Note) | (Note) | (Note) | Non | None | None |
| Kingston Technology Corporation | 3,485,652 | 6.12% | 0 | 0 | 0 | 0 | None | None | None |
| Representative: Albert Yang | 0 | 0 | 0 | 0 | 0 | 0 | Non | None | None |
| KIOXIA Corporation | 3,375,480 | 5.93% | 0 | 0 | 0 | 0 | Non | None | None |
| Representative: Hatanaka Kojiro | 0 | 0 | 0 | 0 | 0 | 0 | Non | None | None |
| CHIH LIANG TSAO | 2,874,826 | 5.04% | (Note) | (Note) | (Note) | (Note) | Non | None | None |
| YU LIEN CHIANG | 1,770,308 | 3.10% | (Note) | (Note) | (Note) | (Note) | Non | None | None |
| Jeffrey Lin | 1,697,971 | 2.98% | 8,162 | 0.01% | (Note) | (Note) | Non | None | None |
| UMC capital | 1,599,170 | 2.80% | 0 | 0 | 0 | 0 | Non | None | None |
| Representative: CHIA TSUNG HUNG | 0 | 0 | (Note) | (Note) | (Note) | (Note) | Non | None | None |
| Powertech Technology (Singapore) Pte. Ltd. | 1,368,145 | 2.40% | 0 | 0 | 0 | 0 | Non | None | None |
| Representative: TU KUNG TSAI | 0 | 0 | (Note) | (Note) | (Note) | (Note) | Non | None | None |

Note: No data available.

X. Total Number of Shares and Total Equity Stake Held in Any Single Enterprise by the Company, Its Directors, Managerial Officers, and Any Companies Controlled Directly or Indirectly by the Company : not applicable.

Chapter 4. Capital Overview

I. Capital and Shares

(I) Source of Capital

Unit: thousand shares/NT\$ thousand; March 31, 2024

| Month/Year | Issued Price | Authorized Capital | | Paid-in Capital | | Note | | |
|------------|--------------|--------------------|---------|------------------|------------|--|--|---------|
| | | Number of Shares | Amount | Number of Shares | Amount | Source of Capital | Capital Increase by Assets Other than Cash | Others |
| 1998.11.26 | 10 | 20,000 | 200,000 | 6,000 | 60,000 | Incorporation capital | None | Note 1 |
| 2000.05.24 | 10 | 20,000 | 200,000 | 10,000 | 100,000 | NT\$40,000 thousand, capital increase in cash | None | Note 2 |
| 2001.03.28 | 10 | 20,000 | 200,000 | 15,000 | 150,000 | NT\$50,000 thousand, capital increase in cash | None | Note 3 |
| 2002.06.11 | 12 | 36,000 | 360,000 | 16,500 | 165,000 | NT\$15,000 thousand, capital increase in cash | None | Note 4 |
| 2002.06.11 | 10 | 36,000 | 360,000 | 21,050 | 210,500 | NT\$45,500 thousand, capital increase from earnings | None | Note 4 |
| 2003.01.13 | 75 | 36,000 | 360,000 | 27,650 | 276,500 | NT\$66,000 thousand, capital increase in cash | None | Note 5 |
| 2003.08.28 | 10 | 50,000 | 500,000 | 33,555.3 | 335,553 | NT\$59,053 thousand, capital increase from earnings | None | Note 6 |
| 2004.11.15 | 10 | 55,000 | 550,000 | 41,490.8 | 414,908.6 | NT\$45,800.3 thousand, capital increase from earnings NT\$33,555.3 thousand, capital increase from capital surplus | None | Note 7 |
| 2005.09.30 | 10 | 62,000 | 620,000 | 45,596 | 455,960.55 | NT\$24,455.61 thousand, capital increase from earnings NT\$16,596.34, capital increase from capital surplus | None | Note 8 |
| 2006.08.30 | 10 | 62,000 | 620,000 | 47,336 | 473,360 | NT\$17,399.45 thousand, capital increase from earnings | None | Note 9 |
| 2007.03.05 | 15 | 62,000 | 620,000 | 47,537 | 475,370 | NT\$2,010 thousand, conversion of employee stock options | None | Note 10 |
| 2007.05.03 | 15 | 62,000 | 620,000 | 47,646.7 | 476,467.5 | NT\$1,097.5 thousand, conversion of employee stock options | None | Note 11 |
| 2007.09.07 | 15 | 62,000 | 620,000 | 50,002 | 500,020.53 | NT\$22,653.03 thousand, capital increase from earnings NT\$900 thousand, conversion of employee stock options | None | Note 12 |
| 2007.11.16 | 17.9、15 | 62,000 | 620,000 | 50,280.8 | 502,808.03 | NT\$2,787.5 thousand, conversion of employee stock options | None | Note 13 |
| 2008.01.10 | 25 | 62,000 | 620,000 | 56,620.8 | 566,208.03 | NT\$63,400 thousand, capital increase in cash | None | Note 14 |
| 2008.06.04 | 15 | 62,000 | 620,000 | 54,793.6 | 547,936.78 | NT\$4,008.75 thousand, conversion of employee stock options NT\$22,280 thousand, capital reduction by treasury shares | None | Note 15 |
| 2008.07.08 | 15 | 62,000 | 620,000 | 54,948.5 | 549,485.53 | NT\$1,548.75 thousand, conversion of employee stock options | None | Note 16 |
| 2008.09.08 | 17.5 | 75,000 | 750,000 | 60,674.5 | 606,745.53 | NT\$57,260 thousand, capital increase by private placement | None | Note 17 |
| 2009.01.23 | 15 | 75,000 | 750,000 | 60,689.5 | 606,895.53 | NT\$150 thousand, conversion of employee stock options | None | Note 18 |
| 2009.05.27 | 15 | 75,000 | 750,000 | 60,902.5 | 609,025.53 | NT\$2,130 thousand, conversion of employee stock options | None | Note 19 |
| 2009.08.28 | 15 | 75,000 | 750,000 | 60,940.5 | 609,405.53 | NT\$380 thousand, conversion of employee stock options | None | Note 20 |
| 2009.11.27 | 15 | 75,000 | 750,000 | 61,483.5 | 614,835.53 | NT\$5,430 thousand, conversion of employee stock options | None | Note 21 |
| 2010.04.01 | 15、24.3 | 75,000 | 750,000 | 61,676.8 | 616,768.03 | NT\$1,932.5 thousand, conversion of employee stock options | None | Note 22 |
| 2010.05.31 | 15、24.3 | 75,000 | 750,000 | 62,154.5 | 621,545.53 | NT\$4,777.5 thousand, conversion of employee stock options | None | Note 23 |

| Month/Year | Issued Price | Authorized Capital | | Paid-in Capital | | Note | | |
|------------|--------------|--------------------|-----------|------------------|------------|--|--|---------|
| | | Number of Shares | Amount | Number of Shares | Amount | Source of Capital | Capital Increase by Assets Other than Cash | Others |
| 2010.09.06 | 24.3 | 75,000 | 750,000 | 62,189.5 | 621,895.53 | NT\$350 thousand, conversion of employee stock options | None | Note 24 |
| 2010.12.13 | 15、24.3 | 75,000 | 750,000 | 62,238.8 | 622,388.03 | NT\$492.5 thousand, conversion of employee stock options | None | Note 25 |
| 2011.07.21 | 14.6、23.9 | 75,000 | 750,000 | 62,467.8 | 624,678.03 | NT\$2,290 thousand, conversion of employee stock options | None | Note 26 |
| 2011.09.15 | 14.6、23.9 | 75,000 | 750,000 | 62,492.8 | 624,928.03 | NT\$250 thousand, conversion of employee stock options | None | Note 27 |
| 2011.12.16 | 14.6、23.9 | 75,000 | 750,000 | 62,548.5 | 625,485.53 | NT\$557.5 thousand, conversion of employee stock options | None | Note 28 |
| 2013.12.25 | 19.2 | 75,000 | 750,000 | 70,048.5 | 700,485.53 | NT\$75,000 thousand, private common stock | None | Note 29 |
| 2014.03.05 | 23.9 | 75,000 | 750,000 | 70,249.5 | 702,495.53 | NT\$2,010 thousand, conversion of employee stock options | None | Note 30 |
| 2014.06.04 | 23.9 | 75,000 | 750,000 | 70,423.5 | 704,235.53 | NT\$1,740 thousand, conversion of employee stock options | None | Note 31 |
| 2014.08.29 | 23.4 | 75,000 | 750,000 | 70,563.5 | 705,635.53 | NT\$1,400 thousand, conversion of employee stock options | None | Note 32 |
| 2014.11.26 | 23.4 | 75,000 | 750,000 | 70,773.5 | 707,735.53 | NT\$2,100 thousand, conversion of employee stock options | None | Note 33 |
| 2015.04.07 | 23.4 | 75,000 | 750,000 | 70,859.5 | 708,595.53 | NT\$860 thousand, conversion of employee stock options | None | Note 34 |
| 2015.08.13 | 27 | 120,000 | 1,200,000 | 80,859.5 | 808,595.53 | NT\$100,000 thousand, capital increase in cash | None | Note 35 |
| 2020.08.25 | 10 | 120,000 | 1,200,000 | 64,687.6 | 646,876.42 | NT\$161,719, capital reduction | None | Note 36 |
| 2021.12.07 | 10 | 120,000 | 1,200,000 | 74,687.6 | 746,876.42 | NT\$100,000 thousand, capital increase in cash | None | Note 37 |
| 2023.07.12 | 10 | 120,000 | 1,200,000 | 49,765.9 | 497,659.34 | NT\$249,217, capital reduction | None | Note 38 |
| 2023.12.21 | 20.62 | 120,000 | 1,200,000 | 56,965.9 | 569,659.34 | NT\$148,464 thousand, capital increase in cash | None | Note 39 |

Note 1. Incorporated as approved by Letter No. 87352342 issued on November, 26, 1998.

Note 2. Approved by Letter No. (089) 115806 issued on May 24, 2000.

Note 3. Approved by Letter No. (090) 9001105070 issued on March 28, 2001.

Note 4. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09101206500 issued on June 11, 2002.

Note 5. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09201003450 issued on January 13, 2003.

Note 6. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-09232589900 issued on August 28, 2003.

Note 7. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-09333029510 issued on November 15, 2004.

Note 8. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-09432893200 issued on September 30, 2005.

Note 9. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-09532759340 issued on August 30, 2006.

Note 10. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-09631762180 issued on March 5, 2007.

Note 11. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-09632050500 issued on May 3, 2007.

Note 12. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09601221330 issued on September 7, 2007.

Note 13. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09601282450 issued on November 16, 2007.

Note 14. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09701004610 issued on January 10, 2008.

Note 15. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09701130370 issued on June 4, 2008.

Note 16. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09701156790 issued on July 8, 2008.

- Note 17. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09701229600 issued on September 8, 2008.
- Note 18. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09801016120 issued on January 23, 2009.
- Note 19. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09801106410 issued on May 27, 2009.
- Note 20. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09801197960 issued on August 28, 2009.
- Note 21. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09801274890 issued on November 27, 2009.
- Note 22. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09901063790 issued on April 1, 2010.
- Note 23. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09901111100 issued on May 31, 2010.
- Note 24. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09901201580 issued on September 6, 2010.
- Note 25. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-09901273770 issued on December 13, 2010.
- Note 26. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10001155000 issued on July 21, 2011.
- Note 27. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10001214440 issued on September 15, 2011.
- Note 28. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10001281590 issued on December 16, 2011.
- Note 29. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10201261980 issued on December 25, 2013.
- Note 30. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10301037510 issued on March 5, 2014.
- Note 31. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10301098880 issued on June 4, 2014.
- Note 32. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10301180600 issued on August 29, 2014.
- Note 33. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10301245970 issued on November 26, 2014.
- Note 34. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10401046520 issued on April 7, 2015.
- Note 35. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10401161940 issued on August 13, 2015.
- Note 36. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-10901147120 issued on August 25, 2020.
- Note 37. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-11001226400 issued on December 7, 2021.
- Note 38. Approved by the Ministry of Economic Affairs Letter No. Economic-Central-11233409970 issued on July 12, 2023.
- Note 39. Approved by the Ministry of Economic Affairs Letter No. Economic Letter-Commerce-11230230440 issued on December 21, 2023.

Unit: shares; March 31, 2024

| Type of Stock | Authorized Capital | | | Remark |
|----------------------------|--------------------|-----------------|-------------|------------------|
| | Outstanding Shares | Unissued Shares | Total | |
| Registered Ordinary Shares | 56,965,934 | 63,034,066 | 120,000,000 | Listed OTC stock |

- Note 1. The Company's shares are listed on TWSE, of which 14,250 thousand private shares are restricted from being traded on TWSE.
- Note 2. Information relating to the shelf registration system: Not applicable.

(II) Shareholder Composition

Unit: shares; % March 31, 2024

| Composition of Shareholders Quantity | Government Apparatus | Financial Institution | Other Juridical person | Individual | Foreign Institution and Foreigner | Total |
|---|----------------------|-----------------------|------------------------|------------|-----------------------------------|------------|
| Number of persons | 0 | 1 | 19 | 3,076 | 7 | 3,103 |
| Number of shares | 0 | 89,237 | 3,538,392 | 45,397,941 | 7,940,364 | 56,965,934 |
| Shareholding ratio | 0 | 0.16% | 6.21% | 79.69% | 13.94% | 100% |

Note: The most recent book closure date: March 31, 2024.

(III) Distribution of Shareholding

1. Shareholding Distribution of Ordinary Shares

Par value: NT\$10 per share; March 31, 2024

| Holding share classification | No. of Shareholders | Number of shares | Number of shares ratio |
|------------------------------|---------------------|------------------|------------------------|
| 1-999 | 1,606 | 513,136 | 0.90% |
| 1,000-5,000 | 922 | 1,982,444 | 3.48% |
| 5,001-10,000 | 219 | 1,554,448 | 2.73% |
| 10,001-15,000 | 83 | 1,045,419 | 1.84% |
| 15,001-20,000 | 48 | 858,186 | 1.51% |
| 20,001-30,000 | 59 | 1,480,577 | 2.60% |
| 30,001-40,000 | 36 | 1,245,533 | 2.19% |
| 40,001-50,000 | 17 | 760,841 | 1.34% |
| 50,001-100,000 | 44 | 3,092,722 | 5.43% |
| 100,001-200,000 | 37 | 4,971,772 | 8.73% |
| 200,001-400,000 | 13 | 3,651,081 | 6.41% |
| 400,001-600,000 | 3 | 1,268,231 | 2.23% |
| 600,001-800,000 | 3 | 1,958,949 | 3.43% |
| 800,001-1,000,000 | 2 | 1,731,330 | 3.03% |
| >1,000,001 | 11 | 30,851,265 | 54.15% |
| Total | 3,103 | 56,965,934 | 100.00% |

2. Shareholding Distribution of Preferred Shares: The Company did not issue preferred shares.

(IV) List of Major Shareholders: Name, Number of Shares Held, and Shareholding Ratio of Shareholders with a Stake of 5 Percent or Greater, or Shareholders Who Rank in the Top 10 in Shareholding Percentage

Unit: shares; March 31, 2024

| Shares Name of major shareholder | Number of shares | Shareholding ratio |
|-------------------------------------|---------------------|-----------------------|
| ZHI HAO JIANG | 5,684,386 | 9.97% |
| YU LIEN CHIANG | 3,982,568 | 6.99% |
| TA YU CHEN | 3,946,646 | 6.92% |
| Kingston Technology Corporation | 3,485,652 | 6.12% |
| KIOXIA Corporation | 3,375,480 | 5.93% |
| CHIH LIANG TSAO | 2,874,826 | 5.04% |
| YU LIEN CHIANG | 1,770,308 | 3.10% |
| Jeffrey Lin | 1,697,971 | 2.98% |
| UMC capital | 1,599,170 | 2.80% |
| Powertech Technology Inc. | 1,368,145 | 2.40% |

(V) Market Price, Net Worth, Earnings, Dividends per Share, and Related Information for the Past 2 Fiscal Years

Unit: NT\$ thousand; thousand share

| Fiscal Year | | | 2022 | 2023 | Current Fiscal Year up to Mar 31 |
|------------------------------|--|-------------------------------------|--------|--------|-------------------------------------|
| Market Price Per Share | Highest | | 30.6 | 33.8 | 31.80 |
| | Lowest | | 15 | 17.35 | 24.90 |
| | Average | | 20.36 | 23.54 | 29.31 |
| Net Worth per Share | Before Distribution | | 6.66 | 7.48 | (Note 2) |
| | After Distribution (Note) | | 6.66 | 7.48 | (Note 2) |
| Earnings per Share | Weighted Average Number of Shares (thousand shares) | | 74,688 | 50,654 | (Note 2) |
| | Earnings per Share | Before Adjustment | (2.10) | (4.34) | (Note 2) |
| | | After Adjustment | (3.15) | (4.34) | (Note 2) |
| Dividends Per Share | Cash | | 0 | 0 | (Note 2) |
| | Stock Dividends | Dividends from Retained Earnings | 0 | 0 | (Note 2) |
| | | Dividends from Capital Reserve | 0 | 0 | (Note 2) |

| | | | | |
|-------------------------------|-------------------------------------|-----|-----|----------|
| | Accumulated Undistributed Dividends | 0 | 0 | (Note 2) |
| Return on Investment Analysis | Price/Earnings Ratio | N/A | N/A | N/A |
| | Price/Dividend Ratio | N/A | N/A | N/A |
| | Cash Dividend Yield | N/A | N/A | N/A |

Note 1. Retroactive adjustment of capital stock after earnings distribution

Note 2. No data available as the current year has not yet ended.

(VI) Dividend Policy and Its Implementation

1. Dividend policy adopted in the Company's Articles of Incorporation

If there is any earnings in the Company's annual final account, the Company shall first pay taxes and make up for losses of previous years, and then set aside 10% of the remaining earnings as the statutory surplus reserve, and make provision or reversal for the special surplus reserve according to the regulations of the competent authority. If there is still remaining earnings, not more than 2% of the remaining earnings shall be set aside as remuneration to directors and supervisors and not less than 10% as employee bonus. Qualification requirements of employees entitled to receive bonus include the employees of parents or subsidiaries of the Company meeting the conditions set by the Board of Directors. The Board of Directors shall draw up the earnings distribution plan, submit it to the shareholders' meeting for resolution and distribute accordingly.

The dividend distribution of the Company is based on the current year's earnings and the Company's future capital budget plan and other factors. Dividends and bonuses may be paid in the form of cash or stock, of which the cash dividend shall not be less than 10%. The aforesaid payment method and ratio may be adjusted by resolution of the shareholders' meeting base on actual needs.

2. Distribution of dividends proposed in the shareholders' meeting:

The Company's 2023 Losses Distribution Plan has been adopted by resolution of the Board of Directors on Feb. 22, 2024. As the net loss after tax for 2023 was NT\$220,015,573 dollars, the capital reserve was used to make up for the loss of NT\$ 76,464,000, and the accumulated loss was NT\$143,551,578 dollars. The shareholders' meeting proposed no dividend distribution in the current year (2024).

(VII) Effect on Business Performance and Earnings per Share of Distribution of Stock Dividends Proposed or Adopted at the Most Recent Shareholders' Meeting

The Company proposed in the Shareholders' Meeting in 2024 that no stock dividends would be distributed to shareholders and employees. Therefore, there is no effect on the Company's business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting.

(VIII) Remuneration of Employees and Directors

1. The percentages or ranges with respect to the remuneration of the employee and Directors, as set forth in the Company's Articles of Incorporation:
 - (1) The remuneration for employees shall not be less than 10%.
 - (2) If the Company has accumulated losses from previous year and gained profit in current year, prior to the appropriation of remuneration for employees and directors, a certain amount shall be reserved for loss recovery in advance, and not less than 10% of the remaining earnings shall be appropriated for employees and not more than 2% for directors. Qualification requirements of employees entitled to receive stock or cash set out in the preceding paragraph include the employees of parents of the Company meeting certain specific requirements. The remuneration to independent directors of the Company shall be paid in the form of monthly fixed remuneration, and the distribution as provided in the first paragraph is not applicable.
2. The basis for estimating the amount of employee and director remunerations, for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: Not applicable.
3. Distribution of remuneration approved by the Board of Directors: The Company does not intend to distribute any dividend in 2023.
4. The actual distribution of employee, director, and supervisor compensation for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated:

The employee bonus and director remuneration to be distributed as resolved by the shareholders' meeting in previous year (2022) of the Company were the same as the original one that proposed for distribution adopted by the Board of Directors and there is no deviation.

(IX) Share Repurchases: None.

II. Issuance of Corporate Bonds: None.

III. Issuance of Preferred Shares: None.

IV. Issuance of Global Depositary Receipts: None.

V. Employee Share Subscription Warrants: None.

VI. New Restricted Employee Shares: None.

VII. Issuance of New Shares in Connection with Mergers or Acquisitions or with Acquisitions of Shares of Other Companies: None.

VIII. Capital Utilization Plan and Its Implementation:

(I) Plan content

| | |
|--|--|
| Item | The first private placement in 2023 Release date: November 2, 2023 |
| Date and content resolved at the shareholders' meeting | On May 16, 2023, the annual general shareholders' meeting resolved to authorize the Board of Directors to issue additional ordinary shares by means of a private placement at an appropriate time, with a maximum number of 20,000 thousand shares at a par value of NT\$10 per share. The total increase in paid-in capital is expected to not exceed NT\$200,000 thousand and will be carried out in one or two installments within one year from the date of the resolution of the shareholders' meeting. |
| Total funds required for the plan | NT\$148,464,000 |
| Sources of funds | Under the private placement plan, the Company issued 7,200 thousand ordinary shares with a par value of NT\$10 per share and a private placement price of NT\$20.62 per share, and received NT\$148,464 thousand in total |
| Use of private placement funds | Increasing the working capital |
| Projected benefits | (1) Increased working capital, raised the availability of capital, and increased flexibility in utilization. (2) Improved the financial structure and enhanced the liquidity ratio and net worth of the Company. |

(II) Implementation status

(1) Use of private placement funds and implementation progress

| Item | Planned projects | Implementation progress Unspent funds balance and purpose statement | | | Description of the balance of unused funds and the use of funds | Reasons for over- or under-achievement and improvement |
|-------|----------------------------|--|-----------|-----------------|---|--|
| First | Increasing working capital | Amount used | Estimated | NT\$148,464,000 | none | none |
| | | | actual | NT\$148,464,000 | | |
| | | Implementation progress (%) | Estimated | 100% | none | none |
| | | | actual | 100% | | |

(2) Evaluation of implementation effectiveness

Unit: NT\$ thousand; %

| Item | 2022 | 2023 |
|------|------|------|
|------|------|------|

| | | | |
|-----------------------|---|---------|----------|
| Financial Information | Cash and Cash equivalents | 64,616 | 141,727 |
| | Shareholders' equity | 497,659 | 426,108 |
| financial structure | Liabilities Ratio | 20.98 | 16.27 |
| | Long-Term Capital Credit Property, Plant and Equipmet Ratio | 880.40 | 1,459.25 |
| Solvency | current ratio | 428.63 | 560.62 |
| | quick ratio | 104.45 | 223.87 |

In November 2023, the Company received full payment for its private placement of marketable securities and has continued to increase its working capital. After reviewing the parent company only financial statements of 2022, the Company's working capital, net worth and related financial ratios have improved compared to those of 2020, so the benefits of the capital increase should have been reasonably achieved.

Chapter 5. Operational Highlights

I. Business Activities

(I) Scope of Business

1. Major Contents of Business

The Company is mainly engaged in the design, testing, production and marketing of NAND Flash controller ICs and MEMS (micro-electromechanical) microphones.

2. Proportion of business

Unit: NT\$ thousand

| Fiscal Year Type of Product | 2023 | |
|--------------------------------|---------|------------------------|
| | Amount | Revenue Proportion (%) |
| Controller IC | 100,251 | 36.37 |
| Audio IC and others | 137,850 | 50.01 |
| Revenue from design services | 37,540 | 13.62 |
| Total Net Operating Revenue | 275,641 | 100.00 |

3. Current Products (Services)

- (1) NAND Flash controller IC
- (2) MEMS microphone IC
- (3) Audio IC
- (4) Intellectual Property and Design Services

4. New Products (Services) Planned for Development

- (1) USB 3.2 Gen 1 NAND Controller IC

- (2) SATA/ PCIe SSD (Solid State Disk/Drive) NAND Controller Solution
- (3) Digital High SNR MEMS Microphone IC
- (4) Digital High AOP MEMS Microphone IC
- (5) USB with high sound quality, 24 Bits/96K sample rate Audio Controller and Type C Hi-RES Audio Controller and Audio Controller with external 3D sourrand sound effect and EQ function

(II) Overview of the Industry

1. Status and Development of the Industry

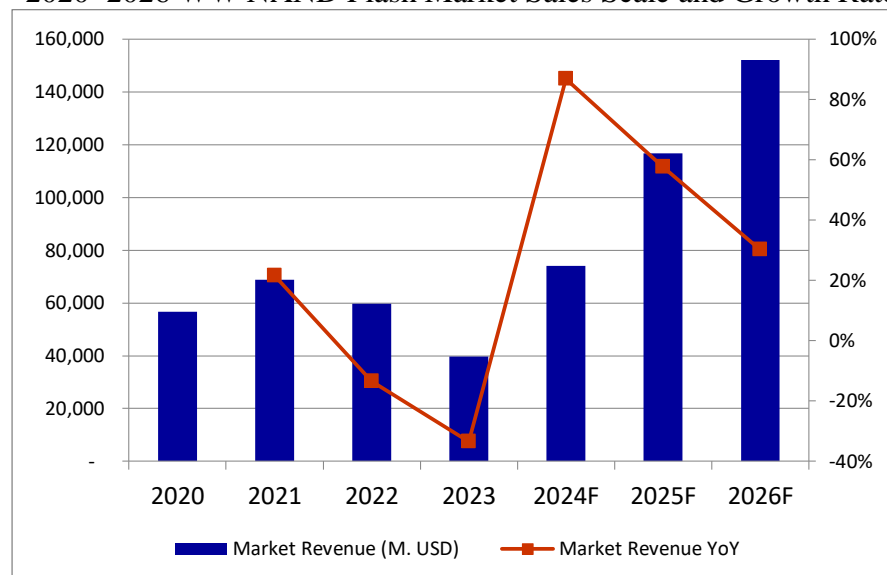
(1) NAND Flash

In order to keep reducing cost, NAND Flash Makers have shrunk the process from 90nm till to 1x nm. Since it is hard to overcome the yield and reliability problem, they turned to 3D NAND Flash TLC and QLC chip 3D structure which increases the memory storage capacity per unit, and enables the whole industry to expand continuously.

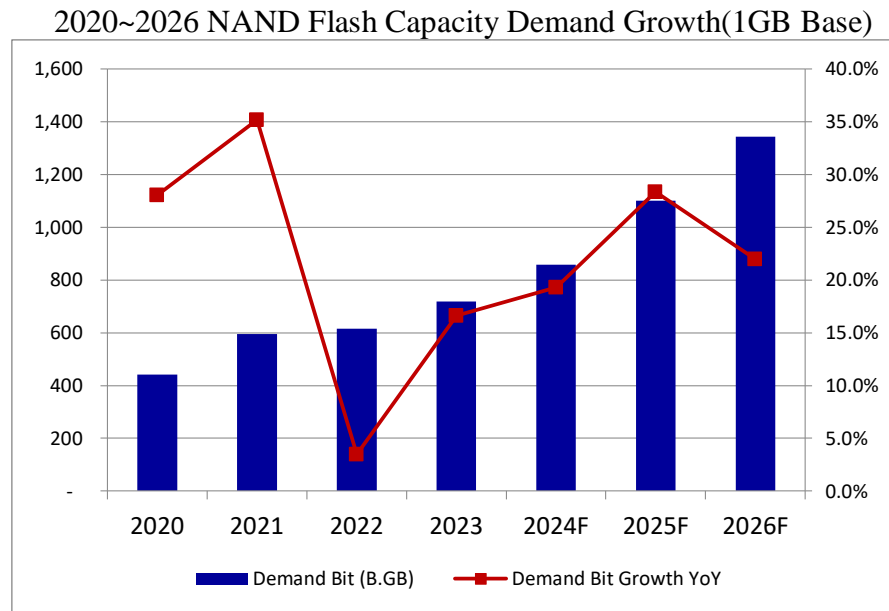
NAND Flash is the major storage memory for SD Card, USB Flash Drive, eMMC/UFS and SSD. A large number of eMMC is applied on Tablet PC and SMART Phone, and a large number of UFS is applied on SMART Phone, while a significant number of SSD is applied on Notebook, Desktop PC, and Server.

According to the survey by IL CONSULTANT, the electronic products demand decrease because COVID-19 epidemic slowed down since 2022 2nd half year, and every country opened borders. NAND Flash Market Sales Scale NAND in 2022 is worse than 2021. The destocking to the healthy level is from 2023Q1 to 2023Q3, and 2024H2 market demand will be expected to recover as usual. The total market sales amount will also start to grow.

2020~2026 WW NAND Flash Market Sales Scale and Growth Rate

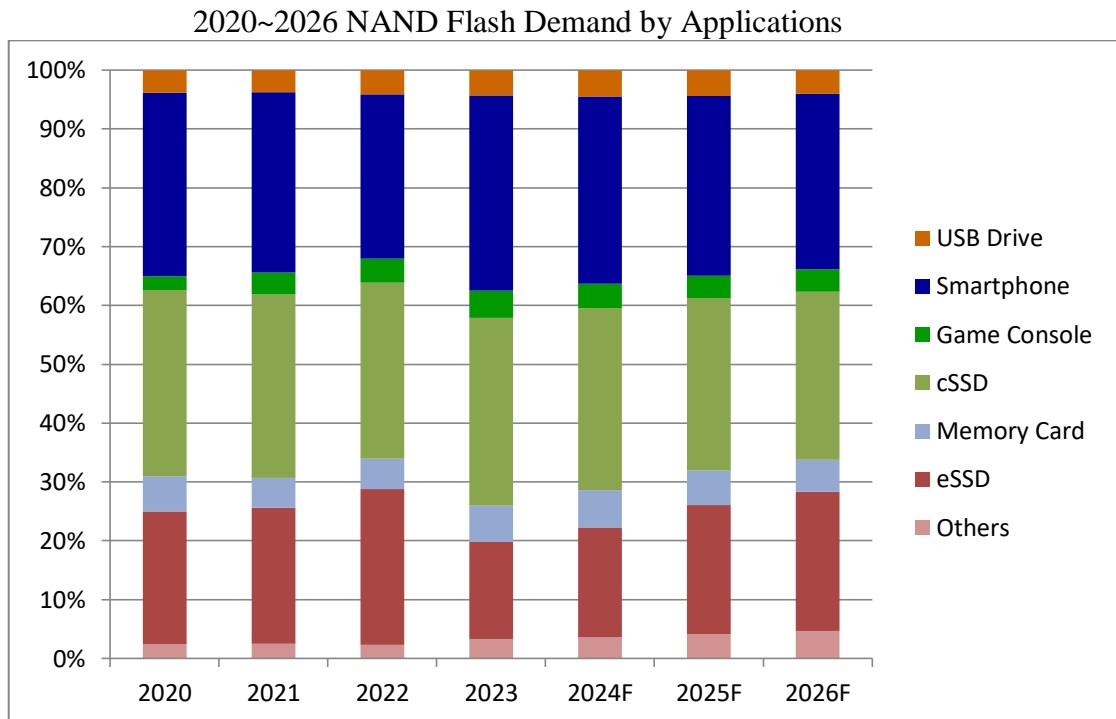


Source: IL CONSULTANT



Source: IL CONSULTANT

According to the survey for NAND Flash application the demand of USB flash drive is stable, and the demand of SSD keeps growing.



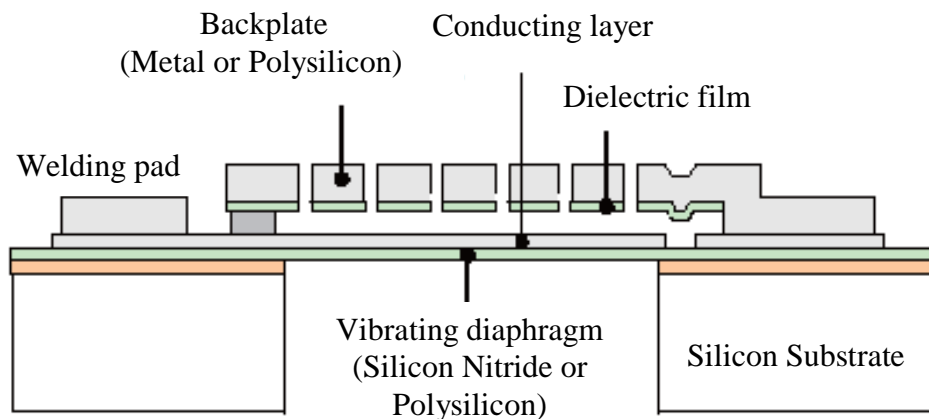
Source: : IL CONSULTANT

(2) MEMS microphones

A microphone is a transducer that converts sound into an electrical signal for transmission and processing. Microphones are used in many applications as long as it is required voice pick up, such as smart phones,

hearing aids, notebooks, tablet, television, surveillance, intercom, smart applications, voice control, vehicle and other applications.

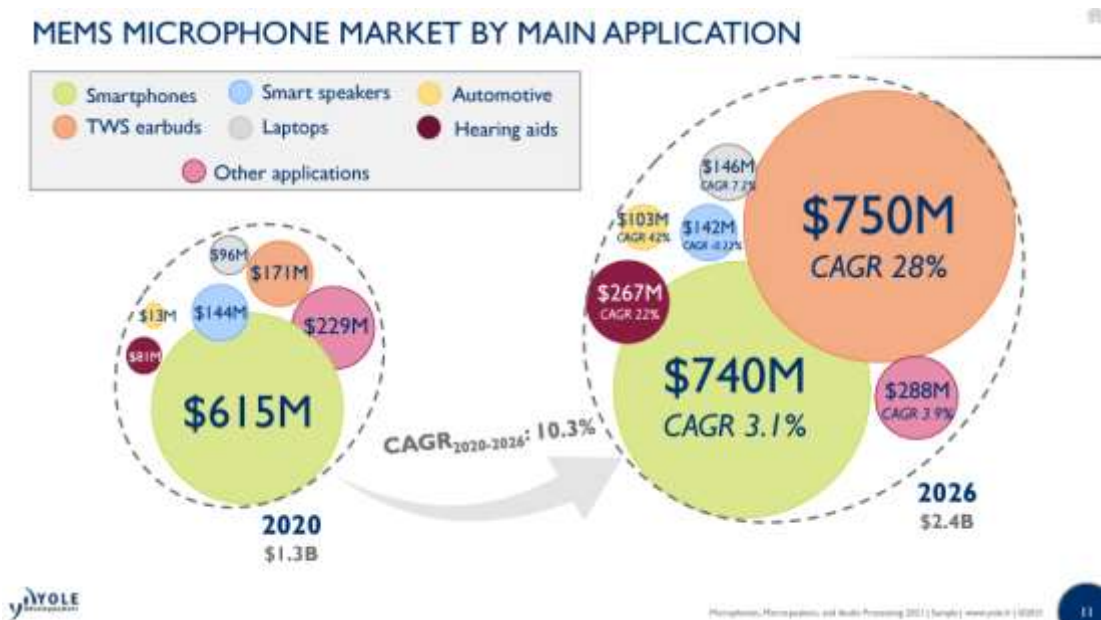
MEMS Microphone sensing chip structure diagram



Source: National Nano Device Laboratories

At present, the main types of microphones for sale are ECM electret condenser microphone and MEMS microphone. MEMS means using semiconductor manufacturing processes or other micro-precision technologies to integrate various functions like electronics, motors or mechanics into a miniaturized component or device. MEMS microphones are designed to be small in size, low in power consumption, and have the following advantages: better suppression of surrounding environmental interference (temperature changes, electromagnetic interference, power fluctuations, etc.), and monomers are consistent highly in performance indicators, and can be mounted automatically. Furthermore, the MEMS components are formed by silicon wafers and mature semiconductor manufacturing processes, so that they can withstand high temperature up to 260°C by surface mounted SMT without impacting performance.

According to the survey by Yole Development in 2021, the MEMS microphone world market will grow from \$1.3 billion in 2020 to \$2.4 billion in 2026, with a steady growth rate of 10.3% annually.



Source: Yole Development, 2021

| Worldwide Smart Home Device Forecast by Shipment Volume, Market Share, and 2023-2027 Growth Rate (shipments) | | | | |
|--|-----------------|--------------------|-----------------|--------------------|
| Device Category | 2023 Shipments* | 2023 Market Share* | 2027 Shipments* | 2027 Market Share* |
| Video Entertainment | 278.7 | 32.5% | 306.4 | 26.5% |
| Home Monitoring/Security | 191.8 | 22.4% | 252.2 | 23.5% |
| Lighting | 101.9 | 11.9% | 169.7 | 20.5% |
| Smart Speaker | 106.9 | 12.5% | 122.5 | 11.0% |
| Thermostat | 24.9 | 2.9% | 29.7 | 2.6% |
| Others | 152.9 | 17.8% | 211.0 | 19.4% |
| Total | 857.1 | 100.0% | 1,091.5 | 100.0% |

Source: IDC Worldwide Quarterly Smart Home Device Tracker, June 23, 2023

Source: IDC 2023

Smart home devices are intelligent devices that incorporate voice recognition technology, allowing users to control their functions via voice commands. Among these, the microphone is one of the key components for enabling voice operation. However, in smart home environments, there are challenges such as distance between users and devices, background noise, interference from other sounds, and echoes, all of which can affect the accuracy of voice recognition. Nevertheless, with the continuous development of voice recognition technology, these issues are gradually being overcome, and smart home devices are rapidly integrating into people's daily lives.

According to IDC statistics, the primary applications of smart home devices include video entertainment, home monitoring, smart lighting, and smart speakers, among others. It is forecasted that by 2027, shipments of smart home devices will reach one billion units, with each device possibly equipped with 1 to 4 microphones, a staggering number. These smart home devices demonstrate significant potential across various applications, offering convenient lifestyles and enhancing home security and energy efficiency.

As smart home devices become more widespread, people's expectations for comfortable and intelligent living continue to increase. In addition to voice recognition technology, smart home devices are continuously enhancing their functionality and performance through machine learning, artificial intelligence, and other advanced technologies. This trend will continue to drive the development of the smart home industry, providing people with more convenience and comfortable living experiences.

In the field of surveillance, the application of access control intercoms and security cameras continues to grow. Access control intercoms not only provide basic access control functions but also incorporate features such as voice interaction, voice recognition, and remote control, making them popular in the market. Through advanced communication technology, users can remotely open access controls, monitor visitors in real-time, and engage in real-time communication. The multifunctionality and intelligence of access control intercoms have led to their widespread use in various scenarios such as enterprises, residences, and public places. Additionally, as customer demand for voice calling and recognition functions increases, the number of microphones configured per device is gradually increasing. According to IHS estimates, by 2023, global shipments of network cameras are expected to reach 200 million units, gradually transitioning from ECM microphones to 1 MEMS microphone per configuration.



Source: TrendForce 2024

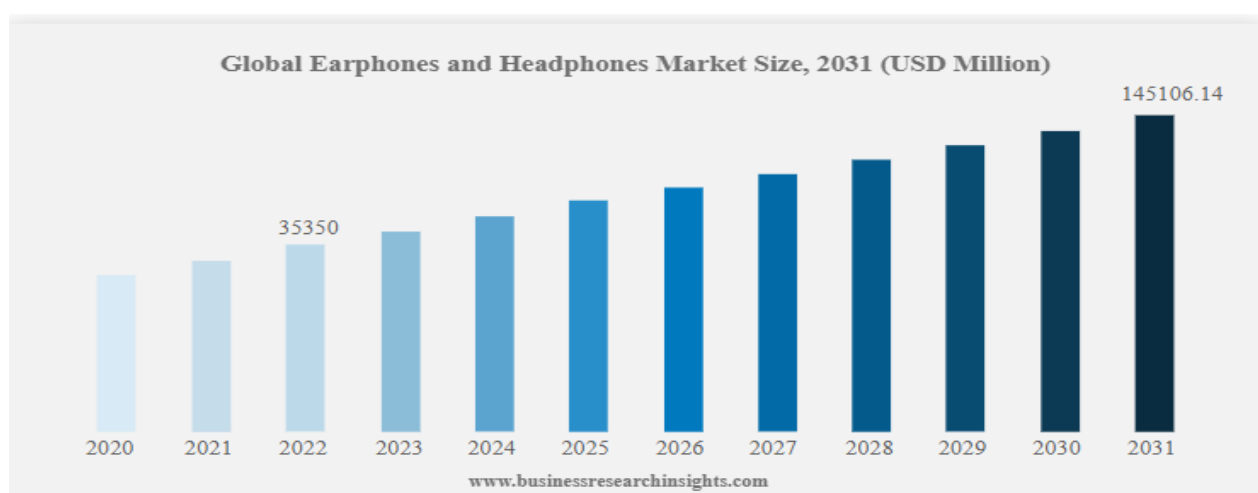
According to statistics from TrendForce, global automobile sales experienced a decline from 2018 to 2020; however, they are expected to show stable growth from 2020 to 2027, with electric vehicles exhibiting the most significant growth. Functionally, automotive application microphones serve several key purposes including in-car communication, intelligent cabins, eCall, and active noise cancellation.

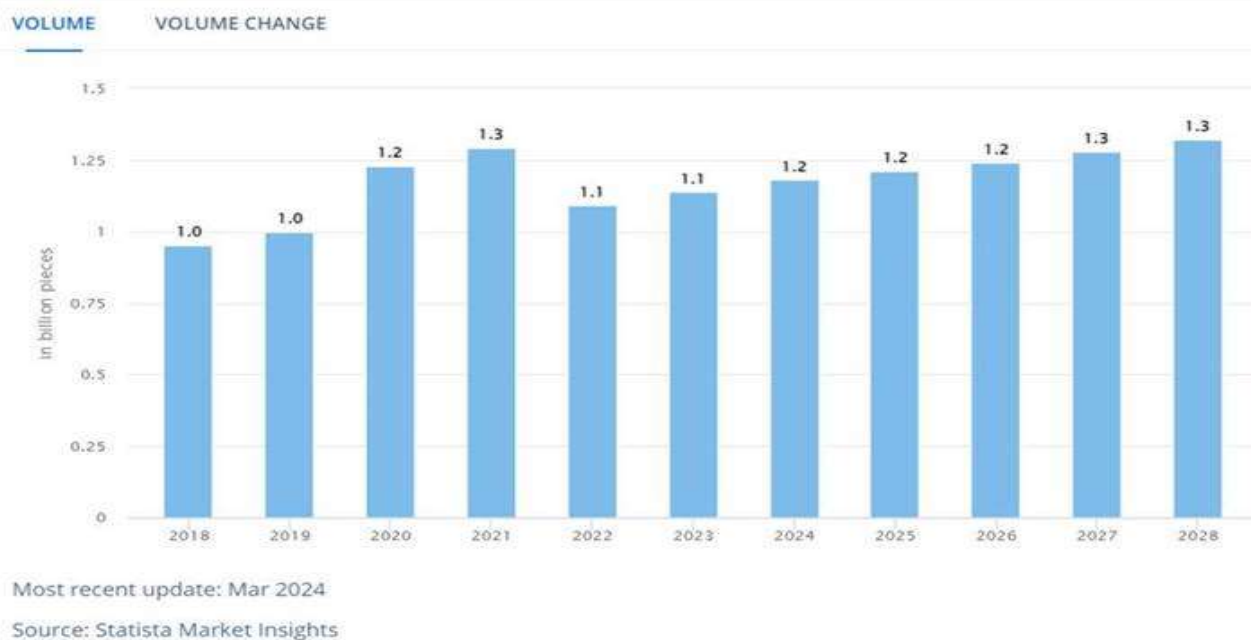
Intelligent cabins and in-car communication systems typically feature 2 to 8 microphones, used to receive each passenger's voice and actively adjust and enhance spoken words to reduce unnecessary noise. eCall systems typically have 1 to 2 microphones to facilitate direct voice communication between the vehicle and local emergency services during emergencies. Active noise cancellation systems install 2 to 6 microphones throughout the cabin to measure internal noise, transmitting audio data for active noise reduction calculations before emitting anti-noise signals through the speakers.

Entry-level vehicles typically include 2 to 4 microphones for active noise control systems, while high-end models can have up to 8 microphones. In summary, depending on their functionality and positioning, each vehicle may require between 5 to 18 microphones. Market feedback suggests that electric vehicles are adopting microphone functionality at a faster rate than traditional fuel-powered vehicles, making this a promising and important market for microphones.

(3) USB Audio IC

It is estimated that the global headphone market is expected to grow to US\$77.76 billion between 2021 and 2025, with a compound annual growth rate of 8% during the period.





In 2023, the main action in USB Audio market is to clean up the inventory. Every participant works hard to survive under mass inventory during China–United States trade war. Fortunately, Gaming headset market didn’t change as TWS IC is modified F to dump into the entry level USB AUDIO market. Traditional headset market still keeps adopting the standard of USB AUDIO structure. Hence, the shipment in 2023 still keeps stable, and set a good foundation of the market growth in 2024.

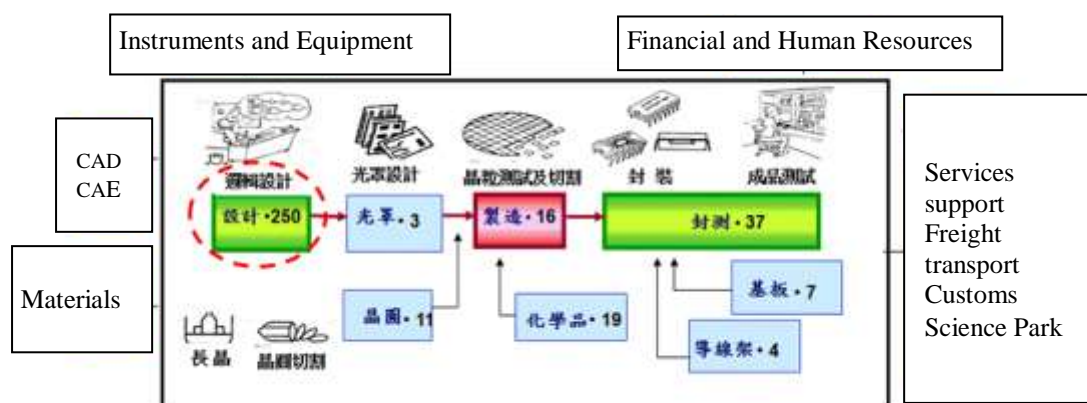
2. The Links between the Upstream, Midstream, and Downstream Segments of the Industry Supply Chain

The IC design industry was originally at the forefront of the semiconductor industry system, no upstream. Its midstream and downstream industries were wafer foundry, wafer manufacturing, assembly and testing. Taiwan's IC industry is different from foreign manufacturers in vertical integration of design, manufacturing, assembly and testing. In each production link individual manufacturers join in and have their own specialties, forming a horizontal division of labor system. Taiwan's IC industry ranks first in the world in both wafer foundry and packaging testing, second only to the United States in THE IC design industry, and has become the most important supply chain for the global IC industry.

IC design companies, whose main business is to sell self-designed products or accept designs commissioned by customers, are brain-intensive industries, which require far less capital than wafer manufacturers. IC design industry is an upstream industry in the industrial value chain. Before completing the final product, firstly it must be manufactured into semi-finished wafer products by professional wafer foundry or IDM factory (integrated device manufacturer who is engaged in design, manufacturing, packaging, testing and sales), are then performed a front-end test. Then, it will be transferred to a professional packaging factory for dice cutting and packaging. Finally, the

professional testing factory does the post-testing, and after the test, the finished product is sold to the system manufacturers through the sales channel to be a system product.

The correlation diagram of the IC design industry between upstream, midstream and downstream is as follows:



Source: Industrial Technology Research Institute IEK(2013/07)

3. Trends of Products

(1) Flash Data Storage Industry

Flash Controller is the most important SOC key component in the Flash Data Storage industry besides NAND Flash, and the development direction of the whole industry will also lead the development of Flash Controller.

A. Application of portable digital consumer electronics products

Driven by Intel and AMD new chip sets, USB 3.x has become the built-in standard interface for personal computers. The supply ratio of USB 3.x flash drives in the market has also gradually increased. Type C interface is also widely used in mobile phones, tablets and note books, and the demand for flash drives with Type C interface is also gradually increasing. By the way, iphone 15 has changed the interface from the lightning to Type C, and the demand of USB flash disks will increase. Because the price of USB external hard drive is raised, the demand of USB high capacity external SSD increases.

B. The storage device replacement effect in notebook and desktop Computers

SSD uses a random access mechanism. It surpasses the semi-sequential and semi-random access modes of hard disk drives, and can speed up program execution and data reading and writing,

which is a great advantage for the operating system. SSD becomes a standard storage for notebooks. SSD has the characteristics of low power consumption, fast startup, good reliability, good efficiency, low noise, thin and short, and is the best weapon to improve the working efficiency of computers.

The market for notebooks and desktop computers has significantly replaced hard disk drives with SSD. Because of the sufficient supply of NAND flash, NAND flash and SSD price went down accordingly which led to an increased quantity and expanded capacity for the SSD shipment. SSD has become the mainstream storage in the notebooks, and the interface has gradually migrated from SATA to PCIe Gen3, and gradually moves to PCIe Gen4. This market would keep growing in the following years.

C. Storage in network server

SSD doesn't have read-write arm, magnetic head and motor as the hard disk drive does. It owns advantages of low operating current, low power consumption, lower operational temperature, and fast access speed...etc. SSD has become the best choice for the fastest cache storage in the new generation of giant data center (Data Center) network server data storage hierarchy. Because Nvidia and AMD

GPU

supports on high speed AI server strongly, AI server demand grows up rapidly and enterprise SSD raises up simultaneously.

D. Application in other industries

For special requirements (including automobile industry, tool machine industry) under harsh environment (Environment Tolerance), SSD will still be the potential storage candidate. Devices of Edge Computing IOT application also needs to store data locally which will be another potential market.

(2) MEMS Microphone Industry

Microphone is a basic sound input component, which is widely used everywhere in various products, such as smart phones, toys, mobile phones, headsets, computers, hearing aids, digital cameras, video cameras and stereos, etc. Compared with traditional ECM microphones, MEMS microphones have the advantages of thin and short, tolerable to high and low temperatures, high signal-to-noise ratio, high resistance to electromagnetic interference, excellent high-frequency response, and consistent quality. It has greatly replaced traditional ECM microphones in 3C products application, and the market growth trend is clear.

From the perspective of market application trend, voice input is current mainstream trend, and it is the most direct and convenient way for man-machine interface input. In recent years, voice recognition has made a great leap in cloud data and big data algorithms. In addition, MEMS microphone IC manufactured by semiconductor process can provide the characteristics of higher signal-to-noise ratio (SNR), more consistent Sensitivity and phase quality. Combined with advanced audio

source separation, array pointing and other technologies, it can provide higher radio quality for back-end voice recognition and processing. It is remarkable and has become a new development direction of man-machine interface. Now it has been widely used in various applications like smart appliances, smart homes, security monitoring, vehicle and so on, and the market is growing rapidly.

The MEMS microphones will develop towards high performance and diversified applications in the future. Various applications have different requirements of specifications: high SNR, high AOP, frequency response, phase consistency, highly tolerable to special harsh environment and special sensitivity.

(3) USB Audio IC Industry

From audio playback equipments to smart platforms, and from mobile phone accessories to independent terminals, audio terminals represented by speakers and headsets are going through three transformations:

- a. Wireless connection: the first step towards an independent terminal. On the one hand, with the development of Bluetooth technology, with the improvement of transmission rate and bandwidth, it has evolved from wired to wireless headsets/speakers, realizing the wireless connection of audio terminals and audio sources; On the other hand, due to the great stability and practicability of wired audio equipment, it is still widely used in most application scenarios, so it is hard to replace in the short term.
- b. Intelligent interface: The computing power of the audio main chip is improved to the platform level, the voice wake-up + active noise-cancelling is fitted as a standard. With the computing power and functional integration requirements of the audio (headset/speaker) main chips greatly increased, the audio chips had evolved gradually from simply completing the data transmission (Connectivity) of Bluetooth/WiFi to an developing independent intelligent computing platform. In addition, the headset terminal integrates voice wake-up to further free users' hands and realize a more natural man-machine interface.
- c. Terminal diversification: smart audio Terminals are not only headsets and speakers, but also endless possibilities of diversification in the future. In the short- to medium term, smart headsets will be an effective means for diversified competition by mobile phone manufacturers, and with the possibility to be a standard configuration in mid-to-high-end mobile phones. Smart speakers benefit from the continuous increase in the penetration rate of the home end, and will evolve to either poles of "heavyweight scene interaction center" or "featherweight voice entrance". In the medium and long term, on the one hand, the headset/speaker terminal will further evolve to multi-function, scene customization, and relatively stand-alone. On the other hand, with the penetration of intelligent scenarios, the audio

entrance will also break through the form of headset/speaker and develop diversified appearances.

After 2023, 5G+AI technology upgrades will drive audio as an important entrance to the era of Internet of all things, which is an important indicator of future development. For the current main product USB Audio, under the interface of USB 1.1 / 2.0, it can provide users with multi-channel and 32/24 bit and 48/96/192/384/768KHz output or input, which is competitive compares to other wired interfaces. Because the digital interface has the inherent advantages of no distortion and easy anti-noise interference in transmission, the overall effect can be even better. Since USB Audio provides users with a solution that is more convenient, higher-level and even the only sound upgrade means in some cases, it has created a new external sound effect market. At the same time, with the sharp rise of various hand-held devices in recent years, especially the rise of smart phones and tablets, it has also played a subtle ebb and flow effect on the PC and NB markets. Fortunately, although these new hand-held devices do not necessarily directly retain the USB slot interface, they all have the same function to continue to support USB audio, and can still easily use the sound effect of USB audio through various adapter ports. USB device is a good extensible device for all kinds of devices, and is also compatible with more advanced TYPE-C interface. Furthermore, in 2.4/5.8GHz related wireless products, USB is often an important bridge between TX end and device, which can expand USB audio related market.

4. Product Competition

At present, NAND flash memory major makers are Samsung, KIOXIA (Toshiba)/ Western Digital(Sandisk), Intel(Solidigm), Micron, and SK Hynix. Now all of them have introduced 3D structure, which has become the key point for growth and competition. YMTC (mainland China) with strong capital background, has begun to aggressively build R&D and manufacturing, and penetrate into this market gradually with China strong domestic demand. Flash memory controller vendors are also facing fierce competition. Due to the general direction of localization of Controller IC usage in mainland China, several domestic USB Controller IC design companies of mainland China have founded and fulfilled China's internal demand. In addition to SSD Controller IC design companies located in the United States and Taiwan, several SSD Controller IC design companies have been established in mainland China, and the competition becomes even fierce.

MEMS microphones are developed by using foundry offered typical MEMS process. 3S has successfully launched several Digital /analog MEMS microphones are suitable for different applications with different packaging forms. At present, there are many MEMS microphone suppliers in a fiercely competitive market, but there are few manufacturers that actually develop both MEMS sensor and pre-amp ASIC which is the only way to meet the diversified application needs and ensure the stability of product

characteristics and supply. Some of MEMS microphone suppliers purchase MEMS sensors, or ASIC, or both, and only engage in packaging and sales. The company is the only MEMS microphone supplier in Taiwan capable of developing products with its own technology and patents on both MEMS Sensor and ASIC. In terms of global market competition, there are roughly five types of suppliers:

| Classification | MEMS Sensor | ASIC | Representative enterprises |
|----------------|---|-------------------------------|---|
| Type 1 | Self-developed | Self-developed | <ul style="list-style-type: none"> ■ Knowles (MEMS Sony, ASIC AMS) ■ Infineon (MEMS Infineon, ASIC Infineon) ■ Solid State System Co., Ltd. (3S) (MEMS UMC, ASIC X-fab+UMC) ■ MEM Sensing (MEMS CRMICRO, ASIC SMIC) ■ STMicro (MEMS Omron, ASIC STM) |
| Type 2 | MEMS sensors / ASICs used in high-end products are purchased from Infineon, and self-developed MEMS sensors / ASICs are used for low-end products | | <ul style="list-style-type: none"> ■ Goertek ■ AAC (buy out the production of Omron MEMS Microphone in SMIC) |
| Type 3 | Supply MEMS Sensor separately or outsource ASIC for sale after testing and sealing | | <ul style="list-style-type: none"> ■ NISD ■ Fortemedia ■ GMEMS |
| Type 4 | Outsourcing | Self-developed and sells ASIC | <ul style="list-style-type: none"> ■ Zilltek ■ Navosense |
| Type 5 | Outsourcing | Outsourcing | Japan(Hosiden), South Korea(BSE) and many manufacturers mainly from mainland China (such as Gongda..) |

These five different types of suppliers all exist in the competitive global market. At present, Infineon is the top one in technology and has the best-selling in MEMS chips market, Knowles has the highest market share in MEMS Microphone, 3S market positioning is high SNR and stable quality, and 3S takes advantage of capabilities of self-developed MEMS Sensor and ASIC, can quickly adapt to new MEMS sensor or ASIC to meet application specifications required by customers, and gradually replaces the market of European and American brands.

For USB audio, there are some similar type of products in the market, however, they are in different market positioning. 3S's USB Audio market positioning is mainly high universality, good compatibility, high cost-performance ratio, with high stability based on a pure hardware architecture. 3S's position is quite different from some similar products in the market which focus more on the developments of DSP and algorithm, 3S's USB Audio mainly focuses on entry-level, easy-to-use and effective product lines, reduces the manpower needs of engineering support and the burden of

excessive resources required for customized firmware, and minimizes the dilemma of several IDM manufacturers developing the same type of products to reach brand customers. Most customers believe that our products are substantially different from other brands.

(III) Overview of Technologies and R&D Work

1. R&D expenditures during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report

Unit: NT\$ thousand

| Item/Fiscal Year | 2023 |
|---|---------|
| R&D Expenses | 123,010 |
| Net Operating Revenue | 275,641 |
| Percentage of R&D Expenses to Net Operating Revenue (%) | 44.63 |

The Company's R&D expenses are mainly invested in analyzing future market development trends and application technologies for new product promotion, and assisting customers in solving production and design problems, so as to improve the ability of the overall solution. R&D expenses mainly include personnel salary expenses, project expenses and various depreciation and amortization.

2. Technologies or products successfully developed during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report

| Fiscal Year | R&D results |
|-------------|---|
| 2023 | (1) Launched USB Cap-less Headphone Drive 24bit/96k Hi-Res Audio IC (2) Launch of USB2.0 entry-level NAND Flash Controller with 1.2V NAND Flash interface (3) Launch of analog differential interface MEMS microphone (4) Launched a series of MEMS microphones with high wind pressure resistance (5) Hearing aid anti-UV analog MEMS microphone (6) Launched USB3.2 Gen I LDPC control IC developed to support KIOXIA BiCS6 TLC NAND Flash. (7) Launch of 1300um x1300um MEMS chip. |
| 2024.3.31 | (1) Launched USB3.2 Gen I With Type A & Type C control IC, and developed new TLC/QLC NAND Flash that supports KIOXIA BiCS6 & BiCS8. (2) Launch of high SNR 67dB + digital MEMS microphone (3) Tape out high AOP 130dB digital MEMS microphone |

(IV) Long-term and Short-term Business Development Plans

1. Short-term Business Development Plans

Since the most advanced process of NAND Flash has migrated as the structure of 3D TLC/QLC. We should consider the characteristics of 3D NAND Flash into the design of our Flash controller ICs and solutions. Our company keeps developing NAND Flash controller ICs and solutions to support the latest generation of 3D TLC/QLC. We continuously strengthen product competitiveness, reduce product costs, improve customer service quality, stabilize existing customers, and prudently develop new customers in existing markets and mainland China to enhance the revenue.

In terms of MEMS microphone IC products, the Company will independently develop MEMS Sensor and ASIC chips, design microphone packaging structure, and develop mass production testing equipment to ensure product quality consistency and stable supply, with an emphasis on the considering different application requirements from the chip development stage, to develop the products closest to market demand. With the launch of high-SNR/high-AOP D-mic products this year, it will help expand the market share of TV, surveillance, smart watches, notebook and other applications.

In terms of USB Audio, in the short term, existing products will be used to continue to expand the customer base that has stabilized due to the shortage of consumer IC market in the past two years and has been troubled by finished product inventory due to the Sino-US trade war in the previous year.

We will continue to improve product functions and cost-effectiveness, maintain a consistent reputation of high quality customer service as well as stable market supply. In addition, we will actively develop new product R&D plan, hoping to make a product improvement and upgrade plan in 2024.

2. Long-term Business Development Plans

3D NAND Flash has become the mainstream usage, and the application markets are expansible in the long term. We aim to stabilize the overall gross margin in USB NAND Flash controller in the consumer market. In information products, we will continue the development of high-speed SSD controller ICs, and continuously and prudently review and distribute existing markets and other rapidly emerging regional markets.

In terms of MEMS microphone IC products, we will target products applicable for seven application areas, including ANC active noise-canceling headsets, AI intelligent applications, security monitoring, automotive, notebook computers, TWS Bluetooth headsets and mobile phones. We have long been operating with brand customers in these seven application fields, and assisting agents to develop various types of customers on the client side. On the other hand, we have conducted in-depth cooperation with the back-end main chip manufacturers to jointly develop the market.

In terms of USB Audio, our long-term goal will be the focus on the development of wireless Audio products, optimize and improve existing products in the market to create differentiated new products and improve the

experience for manufacturers and consumers, and gradually establish a plan to take USB Audio products as the products of AI generation for import and export in the future.

II. Overview of Market, Production and Sale

(I) Market Analysis

1. Geographic Areas where the main Products and Services are Provided and Supplied

Unit: NT\$ thousand

| Sales Region | Fiscal Year | 2023 | |
|----------------|-------------|---------|--------|
| | | Amount | % |
| Domestic Sales | | 48,758 | 17.69 |
| Foreign Sales | | 226,883 | 82.31 |
| Total | | 275,641 | 100.00 |

2. Market Share

The Company is a professional IC design manufacturer. Its main products include NAND Flash controllers ICs, MEMS microphones and audio application ICs, as well as related integrated circuit design and technical services. According to the latest report by the market research agency IC Insights, the output value of global overall IC design industry in 2023 has reached US\$125,600 million, or approximately NT\$3,770 billion. While the net consolidated operating income of the Company was NT\$276 million in 2023, accounting for about 0.0073% of the total output value. Although the overall IC design market share is currently small, the Company will continue to further develop the NAND Flash controller IC product line and customer base in the future, and expand the MEMS microphone IC product line. Therefore, there will be considerable room for growth in the future.

Unit: NT\$ million; %

| Item | 2023 |
|---|------------------|
| The Company's operating revenue (A) | 276 |
| Output value of global IC design industry (B) | NT\$3,770billion |
| Market share of IC design industry (A)/(B) | 0.0073% |

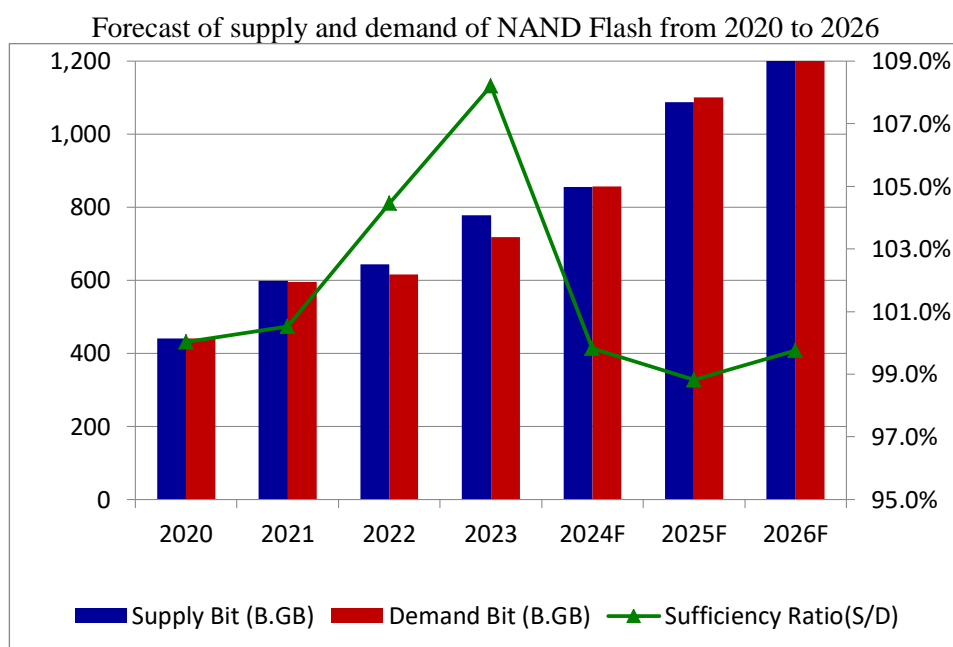
Source: Department of Statistics

3. Supply and Demand in the Market and Possible Future Growth

(1) NAND Flash

According to IL CONSULTANT, NAND Flash has become the main storage for all kinds of electronic products. COVID-19 epidemic slows down, and every country reopens borders. This leads electronic products demand decline. From 2022 to 2023, the sufficiency ratio between supply and demand shows the oversupply. Although the NAND Flash industry has some oversupply or shortages at certain time points, the

overall supply and demand is still in a healthy balance and is still growing steadily. In the long term, market research estimates that the overall NAND Flash Memory market will continue to grow from 2020 to 2026. From the application point of view, NAND Flash applications have spread rapidly. In addition to UFS or eMMC for smartphones and eMMC for tablets, the demand for solid-state drives (SSD) for notebooks and data centers is also increasing rapidly. According to market research reports, SSD consumed 50% of the global NAND. In the long term, SSD is the primary application market for capacity growth, and our company also puts major engineering effort and support on SSD.



Source: IL CONSULTANT

(2) MEMS microphones

According to data released by the market research agency Yole Development in 2021, the global MEMS microphone market will grow from US\$1.2 billion in 2021 to US\$1.8 billion in 2026. On the supply side, the Sensor for MEMS microphones requires special semiconductor equipment and manufacturing processes, which would become the most important supply limitation. Generally, semiconductor foundries are unable to manufacture and mass produce unless they invest in special equipment and coinvest in process development with MEMS microphone manufacturers. Currently, there are limited semiconductor factories with mass production capacity, such as Sony, NJR in Japan, Infineon in Germany and Malaysia, SMIC and CR Micro in Mainland China, and UMC in Taiwan and other 8 inch/6 inch semiconductor manufacturers. The current supply is still said to be sufficient. In the coming years, the demand for MEMS microphones will continue to grow strongly under the new application trend of Cloud Voice Recognition in combination with artificial intelligence functions, and Edge Voice Recognition with terminal artificial intelligence. Continued investment in new capacity for 8-inch semiconductors could be a bottleneck.

(3) USB Audio IC

USB Audio market has entered the Audio ecological stage following traditional Audio and digital Audio. The growth was mainly due to factors such as mature users' audio usage habits, multi-point development of audio content products, and the promotion of users' payment for audio live broadcasts. In the future, the incremental market space will be further opened with the gradual maturity of audio products and profit models, and the improved efficiency of audio ecology. Particularly COVID-19 after 2023, the upgrade of 5G+AI technology will promote audio as an important entrance in the era of the Internet of Everything, and the market boundary will be greatly expanded. The overall market size is expected to exceed NT\$34 billion by 2024.

4. Competitive Niches

(1) Close cooperation with upstream and downstream industries

Our Company is major in chip design and solution development. In the NAND Flash controller IC, we get the latest technical information from upstream strategic partner (NAND maker) KIOXIA and market demand from downstream strategic partner (Module House) Kingston to develop the right flash controller IC. Our controller ICs could support the newest NAND generation, and USB/SSD finished goods could be mass production smoothly. In SSD product line, Our company also cooperates with the advanced hardware vendors, and we provide SSD Turnkey Solution with our firmware strength and the mass production experience of finished goods to serve our customers.

In terms of MEMS microphone IC products, the Company has long cooperated with semiconductor manufacturers to develop MEMS Sensor process, with packaging plants to develop packaging process, and with equipment plants to develop automatic testing equipment, mastering the process from semiconductor process, packaging process to automated testing equipment. Based on the market demand, we emphasize considering the application demand from the chip development stage, developing the products closest to the market demand, and providing customers with the most suitable products with close cooperation between the upstream and downstream of the entire industry to create a win-win situation.

The USB Audio product line has long been closely related to the upstream and downstream of the industry chain. In the future, the Company will deepen its relationship with the upstream and downstream of the industrial chain to maintain better product yield and cost advantages.

(2) Master key core technologies

In addition to the key core technologies accumulated in NAND Flash controller IC products, the Company is also actively developing new MEMS microphone IC products. From the early launch of the world's

only single-chip CMOS MEMS microphone that entered mass production, to the separate design of ASIC and MEMS Sensor in response to mainstream market demand, the Company has launched dual-chip MEMS microphones, accumulated technologies and patents for process components, circuit design, acoustic mechanism and packaging and testing, and fully grasped the relevant key core technologies thereof.

(3) Master good customer relations

The USB Audio product line has long been closely related to upstream and downstream customers in the industry chain.

In the future, we will deepen the relationship with the upstream and downstream of the industrial chain to maintain better product yield and cost. Based on this advantage, provide high-stability consumer-grade products to maintain customer stickiness.

(4) Complete layout of intellectual property rights and patents

Patent value is an important factor for international competitiveness and sustainable management capability, and it is of vital importance for IC design companies. Each product line of the Company is relatively early invested in R&D at home and abroad. Except for some outsourcing intellectual property (IP), they are all developed independently based on innovation. The Company has accumulated a considerable number of patents in the United States, Europe, mainland China, Japan and Taiwan and other regions, and has established a complete patent layout through strategic cooperation and cross-licensing, which can reassure sales customers from worry about being interfered by patent litigation, and significantly reduce royalty payment costs. The Company was awarded as one of the "Top 50 TWSE/TPEX Listed Companies in US Patent Value" by the Science & Technology Law Institute in 2013, and has established a clear patent award system and a complete training system to encourage employees to innovate, which shows that the Company attaches great importance to the intellectual property rights of enterprises. In addition to obtaining some basic invention patents for the calculation of Flash Controller ahead of the world, the Company has obtained key core patents including related component process, circuit design, acoustic mechanism, packaging and testing for most MEMS microphone related patents, as mentioned above. Some of these patents are among the world's leading applications and certifications.

5. Positive and Negative Factors for Future Development, and the Company's Response to Such Factors

(1) Positive Factors:

A. Flash Controller

- a. NAND Flash supply and its application markets continue to grow strongly

In recent years, NAND Flash makers have turned to the development of 3D structure design and manufacturing technology. NAND Flash technology migrated from TLC

(3-bit-per-cell) to QLC (4-bit-per-cell) to improve the demand for capacity and keep expanding the overall industry in the following years. Except mobile and computing platforms, SSD which replaces hard disk drive will also consume the huge flash capacity. SSD provides high-speed and low-power data access on high-end servers, or providing light, thin, small, power-saving and less noisy data access on notebook and desktop computers to replace hard disk drives. IOT rapid expansion accompanies the enhancement of embedded memory demand. the market is poised for growth. We can expect the huge growth of NAND Flash demand.

- b. Long-term accumulated firmware and mass production experience on NAND Flash applications finished goods.

Our company works hard on NAND Flash application market many years. We support the latest NAND Flash technology from SLC(1-bit-per-cell) to MLC(2-bit-per-cell), then to TLC(3-bit-per-cell) majorly used now, then to the newest QLC(4-bit-per-cell). Along with the more layers process of NAND Flash, we design Flash controller ICs to support them, and assist the mass production of NAND Flash storage finished goods. These years, NAND Flash progresses 3D structure. We continue releasing USB 2.0 and USB 3.x flash controller ICs to support them for USB Flash Disk at the module house. With our own firmware development and finished goods mass production experience, we co-operate with the international IC design company. We use their advanced SSD controller IC to provide our firmware and software solution to get into rapid growth SSD market. SSD's core technology is included of firmware ability and the mass production experience of NAND Flash finished goods except the advanced process node of SSD hardware. Since we have the ability and experience, we have the change to get into this rapid growth SSD market in the short term under the absence condition of SSD hardware.

- c. Close cooperation with upstream and downstream industries

We deeply look into the change of the industry environment, and strengthen the cooperative relationship between upstream company KIOXIA (3S strategy partner) and downstream company Kingston (3S strategy partner). Besides, we also discussed with other flash module companies to cooperate further because of the long term reputation in this market. In SSD market, we adopt and collaborate with the advanced hardware vendors, and roll out SSD turnkey solution into this market.

B. MEMS microphones

a. The MEMS microphone market will continue to grow strongly

Voice recognition brings humans the most natural voice and the convenience of communicating with machines. Combined with increasingly sophisticated AI technologies, the market for MEMS microphones will continue to grow strongly. All kinds of Cloud Applications and terminal Applications Edge Applications have been launched continuously, liberating human hands and vision, improving human efficiency and enabling people to work on multiple matters at the same time. There will also be breakthroughs in human hearing applications. As a result, the development of voice-related applications would be full of imagination, and the market for MEMS microphones will continue to grow strongly with the popularity of voice applications.

b. Continue to introduce dual-chip digital/analog MEMS microphones for different applications

The Company initially adopted the standard CMOS process for the mass production of single-chip CMOS MEMS microphones. In response to the mainstream market trend, the Company switched to a special MEMS process for the development of dual-chip MEMS microphones. It has successively launched a variety of digital/analog models suitable for different applications and in different packaging forms. By 2023, three Sensors with different structures and with different sizes of 1300um x 1300um, 1100um x 1100um, 850um x 850um, 700um x 700um, and multiple digital/analog ASICs with different demands have been launched, together with a portfolio of digital/analog MEMS microphones for a wide variety of applications. In the near future, the Company will introduce a sensor with a smaller area to meet the demand for low-cost TWS headset calls, and a sensor with a larger area and an improved structure to meet the market demand for higher SNR. The future development trend of MEMS microphones will be towards high performance and diversified applications. Various applications require different specifications, some of which are met by ASIC circuit design, some are solved by MEMS Sensor structure design or different processes, different materials, and some are related to packaging structure design. Therefore, suppliers who do not carry out self-development and do not have enough technology accumulation will face great pressure in response to the requirements of different applications of customers.

c. Manufacturers planning for new investment are challenged by the MEMS microphone market

Different from general semiconductor process, MEMS processes require special equipment investments such as Double Side alignment, Deep RIE... and other special process equipment.

General semiconductor foundries will first evaluate the investment risk and then the feasibility of the process technology, and then invest the process development personnel to cooperate with MEMS Microphone design, and continue to invest manpower and time to improve the yield. The reliability issue can only be verified successively after the product is put on the market. It can be a huge challenge for manufacturers planning for new investment in terms of determination and technology.

In addition to the R&D of MEMS microphone components, the Company has also long been developing MEMS microphone-related applications, and has established and accumulated system application technologies as its foundation such as ANC (Active Noise Cancellation, DOA (Direction of Arrival), Beamformer (directional microphone), Offline Voice Recognition etc. By investing in the application market, we can peep and grasp the demands and trends of future product development.

C. USB Audio

USB Audio products are irreplaceable after passing the relevant certification, unless the customer is willing to redesign and re-certify the entire finished product. However, the cost of finished product certification is extremely high. Generally, customers do not easily replace the certified products unless there is a long-term shortage or cost problems, which is an extremely favorable factor for us, who currently occupy the position of entry-level products in the client side for a long time. .

Since 24b/96K new product ship formally, it reinforces the shortage of the middle level spec. product. Under the good relationship with the customers, the new product could be developed the new models at customers' side originally. Since some functions and efficacy are not completed, some customers' new model development is not as expected. We expect that we will resend the samples to the customers for further certification after the new improved and upgraded product is completed. Once the new product design scheme is certified again, it can hopefully enter a good cycle that is not easy to be replaced, which can also increase the adhesion of customers to us.

(2) Harmful Factors and Countermeasures

A. NAND Flash Controller

NAND Flash controller ICs market grows substantially. The domestic/foreign IC design companies face fierce competition. So, the price and gross profit of some Controller ICs declined year by year. From the perspective of NAND Flash supply, it is harmful for NAND Flash finished goods sales as NAND Flash price increases. At that time, it will impact Sales of NAND Flash controller ICs. The

unchangeable rule is that our NAND Flash controller ICs support all kinds of NAND our customers use in time to overcome the big change in this market. Since 2020, the logic wafer supply shortage has resulted into the decline of Controller IC's sales. Inventory destocking in the consumer market during 2022 and 2023 also caused the pressure of gross margin and profit.

Countermeasures:

Keep strengthening the cooperation relationship with the strategic partners on USB Flash Controller IC, and enhance the additional value of the controller ICs together. For the controller IC design, we choose the cost-effective process, simplify design, enhance the error correction ability to slow down the cost, enhance product features and keep product competitive. We would also support different kinds of NAND from different NAND vendors, and approach more customers. To reduce NAND Flash supply variation to the sales impact of SSD Turnkey Solution, we keep supporting all kinds of Flash, and the customers who can get Flash steadily in the long term.

B. MEMS microphones

At present, many MEMS microphone suppliers on the market are international manufacturers. Infineon and Knowles are leading in technology development and market share, ranking the top two in the world. STM has lost its market share, while TDK continues to develop. In the dual-chip MEMS microphone market, the Company is relatively lagging behind the market.

Response Strategies:

The MEMS microphones is developing towards high performance and diversified applications in the future. In response to this trend, the Company will make full use of its own technology development advantages to introduce in a flexibly manner a variety of MEMS Sensors with different characteristics, ASICs with different performances and different packages, with a combination of MEMS microphones with advanced, medium and low-end product application specifications as required by customers. In areas with more mature market applications, such as notebook and mobile phone applications, the market supply and demand situation is also more mature. The Company will strive for opportunities of standby suppliers based on product quality and cost performance. In new application fields such as AI intelligent application, surveillance and vehicle-mounted, the Company will continue to increase its market share by strategically and flexibly expanding diversified products to brand customers.

C. USB Audio

In the short term, the biggest negative factor is the rise of similar products in mainland China, which may cause a short-term decline in

inventory and sales quantity in a specific period of time, as a result of the shortage of consumer ICs and materials and the difficulty of wafer production for two consecutive years caused by the US-China trade war and COVID-19. In addition to the original competitors and customers increasing a large number of their upstream orders and accumulating inventories, some other manufacturers has put the USB AUDIO ICs that had been discontinued in the early years back into production and grab such out-of-stock markets through mainland solution providers, and several mainland IC design companies have newly developed new products such as USB AUDIO DSP or ICs to join the war.

Response Strategies:

USB Audio IC was originally one of the overall AUDIO market, and there are not so many manufacturers who develop deeply in this field. But the overall market has actually been fairly stable for more than 20 years. In the early stage, the market was dominated by TI and other American manufacturers, and the 3S USB Audio product line was actually not rich in projects. However, over the past 10 years, although we have been exposed to every unfavorable factor in the market, the Company still has been able to truly understand the needs of customers, make products that are truly differentiated from other manufacturers, and provide good customer service. Only by continuously developing Audio-related technologies, launching products suitable for customers reasonably and efficiently, and maintaining a good market price positioning, can we continue to develop in the fierce competition.

(II) Usage and Manufacturing Processes for Main Products

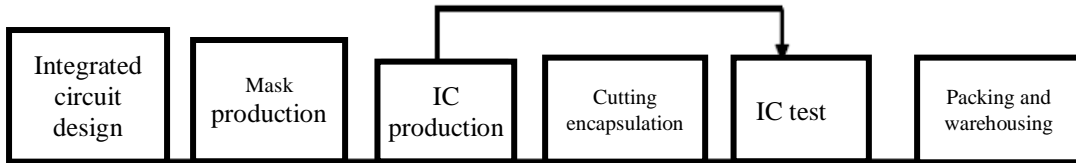
1. Important Applications of Main Products

| Type of Main Products | Important Applications of Functions |
|--------------------------|--|
| NAND Flash controller IC | Data access with USB Flash Disk through the computer data security control, data storage in mobile device, main data storage for desktop computers and servers, data storage for Edge Computing IOT Device |
| Audio IC | Phone headsets, gaming headsets, headsets and microphones for desktop and notebook computers, TYPE-C headsets, audio converters, computer recording equipment, Type C extended HUB audio source, online live streaming and song-related products, POS and IPC-related audio source devices |
| MEMS microphone IC | TWS Bluetooth headsets, ANC active noise-canceling headsets, smart applications, notebooks, surveillance, vehicle and mobile phones |

2. Manufacturing Processes for Main Products

a. IC (NAND controller) & MEMS microphone

The Company is an IC design company, and its wafer manufacturing is commissioned to the foundry. After the initial testing, the wafer produced by the foundry will be sent to the packaging and testing factory for packaging and complete IC function testing.



(III) Supply Situation for Major Raw Materials

The company's main raw material is silicon wafers, and its suppliers are well-known domestic and foreign wafer foundries. It is a professional wafer foundry, so the quality is stable and the production capacity is good. There should be no doubts about the source of wafer supply.

| Main Raw Materials | Main Suppliers |
|--------------------|----------------|
| Wafer | Company A |
| Wafer | Company B |

(IV) List of Major Suppliers/Customers

1. Information on Major Suppliers for the Most Recent Two Years

Unit: NT\$ thousand; %

| Item | 2022 | | | | 2023 | | | |
|------|---------------|---------|--|------------------------------|---------------|--------|--|------------------------------|
| | Name | Amount | Percentage of Annual Net Purchases (%) | Relationship with the Issuer | Name | Amount | Percentage of Annual Net Purchases (%) | Relationship with the Issuer |
| 1 | Company A | 65,383 | 34.69 | None | Company A | 1,835 | 4.00 | None |
| 2 | Company B | 103,841 | 55.09 | None | Company B | 30,002 | 65.32 | None |
| | Others (Note) | 19,271 | 10.22 | None | Others (Note) | 14,094 | 30.68 | None |
| | Net purchase | 188,495 | 100.00 | N/A | Net purchase | 42,117 | 100.00 | N/A |

Note: All suppliers accounting for 10 percent or more of the Company's total procurement amount.

2. Information on Major Customers for the Most Recent Two Fiscal Years

Unit: NT\$ thousand; %

| Item | 2022 | | | | 2023 | | | |
|------|---------------|---------|------------------------------------|------------------------------------|---------------|---------|------------------------------------|------------------------------------|
| | Name | Amount | Percentage of Annual Net Sales (%) | Relationship with the Issuer | Name | Amount | Percentage of Annual Net Sales (%) | Relationship with the Issuer |
| 1 | KIC | 72,364 | 17.97 | Corporate Director | KIC | 10,710 | 3.88 | Corporate Director |
| 2 | KDIL | 211,610 | 52.56 | Subsidiaries of Corporate Director | KDIL | 126,231 | 45.80 | Subsidiaries of Corporate Director |
| 3 | Company A | - | - | None | Company A | 36,235 | 13.15 | None |
| 4 | Others (Note) | 118,631 | 29.47 | None | Others (Note) | 102,465 | 37.17 | None |
| | Net sales | 402,605 | 100.00 | | Net sales | 275,641 | 100.00 | |

Note: All customers accounting for 10 percent or more of the Company's total sales amount.

(V) Production Volume and Value for the Most Recent Two Fiscal Years

Unit: NT\$ thousand; thousand pieces /tablet

| Fiscal Year Output | 2022 | | | 2023 | | |
|-----------------------|---------------------|-------------------|------------------|---------------------|-------------------|------------------|
| | Production Capacity | Production Volume | Production Value | Production Capacity | Production Volume | Production Value |
| Main Products | (Note) | 15,334 | 129,082 | (Note) | 6,943 | 58,639 |
| Controller IC | (Note) | 15,334 | 129,082 | (Note) | 6,943 | 58,639 |
| Audio IC and others | (Note) | 42,655 | 169,380 | (Note) | 15,539 | 76,000 |
| Total | (Note) | 57,989 | 298,462 | (Note) | 22,482 | 134,639 |

Note: The Company is an IC design company, with all production activities, thus it is not applicable.

(VI) Sales Volume and Value for the Most Recent Two Fiscal Years

Unit: NT\$ thousand; thousand pieces /tablet/set

| Year Sales Volume | 2022 | | | | 2023 | | | |
|------------------------------|----------------|--------|---------------|---------|----------------|--------|---------------|---------|
| | Domestic Sales | | Foreign Sales | | Domestic Sales | | Foreign Sales | |
| Main Products | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| Controller IC | 0 | 0 | 18,558 | 267,357 | 0 | 0 | 7,697 | 100,251 |
| Audio IC and others | 4,325 | 40,714 | 20,991 | 78,908 | 6,026 | 47,908 | 22,595 | 89,942 |
| Revenue from design services | 0 | 0 | 0 | 15,626 | 0 | 850 | 0 | 36,690 |
| Total | 4,325 | 40,714 | 39,549 | 361,891 | 6,026 | 48,758 | 30,292 | 226,883 |

Note: For other products, it means the service income from provision of technology.

III. Information on Employees for the Most Recent Two Fiscal Years and during the Current Fiscal Year Up to the Date of Publication of the Annual Report

| Year | | 2022 | 2023 | Year ended March 31 |
|----------------------------|---------------------|------|------|------------------------|
| Number of employees | R & D | 65 | 57 | 56 |
| | Sales | 29 | 23 | 22 |
| | manager | 19 | 21 | 20 |
| | manufacturing staff | 5 | 6 | 6 |
| | Total | 118 | 107 | 104 |
| Average age | | 43.4 | 44.7 | 45.1 |
| Average years of seniority | | 8.9 | 10.5 | 10.8 |
| Educational level (%) | PhD | 0.8 | 1.0 | 1.0 |
| | Master | 46.7 | 49.5 | 51.0 |
| | College | 52.5 | 48.6 | 47.1 |
| | High school | 0 | 0.9 | 0.9 |

IV. Disbursements for Environmental Protection

The total amount of losses (including compensation) and disposals due to environmental pollution in the most recent year and up to the date of publication of the annual report, And explain the future countermeasures (including improvement measures) and possible expenditures (including possible if the estimated amount of loss, disposal and compensation cannot be reasonably estimated, it shall explain that it cannot be reasonably estimated Facts): None.

V. Labor Relations

1. Employee Benefit Plans, Continuing Education, Training, and Retirement Systems and the Status of Their Implementation, and the Status of Labor-management Agreements and Measures for Preserving Employees' Rights and Interests

(1) Employee benefit plans

In addition to the employee's labor insurance, national health insurance and pension contribution, the Company also provides group insurance for employees and their spouses and children (including life insurance, accident insurance, inpatient medical insurance and cancer insurance) to strengthen the security of employees' work and life. A vacation system better than that specified by the Labor Standard Act and two days a week off, a flexible commuting system in line with humanized management, praise for senior employees, provide free coffee/tea and the provision of overtime meal. Set up an employee welfare committee to coordinate welfare funds, plan and implement various employee welfare projects and activities, such as annual travel, family day, dinner party and lucky draw, etc. The Company also provides subsidies for clubs and sports clubs in the park to encourage colleagues to exercise more, and provides regular health check packages and subsidies to promote employees' physical and mental health.

(2) Employee training

The Company attaches great importance to the professional talents in various fields. In order to enhance the overall competitiveness of the Company and cultivate talents for the Company's sustainable development, the Company has established an education and training program to provide complete pre-service and in-service training, regularly organizes internal training based on the Company's development priorities or internal needs, and encourages colleagues to participate in a variety of external training courses, including short-term study courses and long-term training courses, to meet the Company's business needs and personal development needs.

The Company provides general, professional and management training courses for employees of different positions in a systematically manner, including:

- 2.1 Management training: The Company plans relevant courses according to the management skills and responsibilities of executives at all levels.
- 2.2 General training: It refers to the general training activities throughout the whole company or at all levels, such as: stress adjustment, health management, career development courses and quality audit courses.
- 2.3 Professional/functional training: It refers to the technical and professional training required by each functional unit.
- 2.4 New employee training: It includes guidance and basic training for new employees.

(3) Retirement System and Its Implementation

For employees formally employed by the Company who joined the Company before July 1, 2005, the Company allocates 2% of the employee's total monthly salary as employee retirement reserve to the deposit account with the Central Trust Of China in accordance with Article 2 of the Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds promulgated by the Ministry of the Interior. In accordance with the accounting treatment standards for pensions, the Company appoints qualified a qualified actuary to carry out the pension actuarial. For the part applicable to defined contribution method, the Company contributes 6% of the employees' insured salary to the individual pension account with the Bureau of Labor Insurance every month in accordance with the provisions of the Labor Pension Act.

(4) Labor-management agreements and measures for preserving employees' rights and interests

The Company has always maintained a harmonious labor-management relationship. It holds a "labor-management meeting" on a quarterly basis to fully establish communication channels between labor and management. There was no dispute between labor and management, thus no coordination was required.

(5) Protection measures for work environment and employees' personal safety

The Company emphasizes "people-oriented" and stipulates the protection measures for work environment and personal safety of employees in the relevant provisions of its Code of Labor Safety and Health, including the environmental requirements for fire fighting, work safety and health, etc. To

provide all colleagues a good office working environment, the Company has set up a 24-hour access control management system to control the entry and exit, and regularly carries out comprehensive fire equipment inspection and fire escape drill to ensure the safety of employees, and performs office disinfection and air conditioning equipment overhaul and maintenance to maintain the employees' health.

2. Any Losses Suffered by the Company in the Most Recent Two Fiscal Years and up to the Annual Report Publication Date due to Labor Disputes, and Disclosing an Estimate of Possible Expenses that could be Incurred Currently and in the Future and Measures Being or to be Taken. If a Reasonable Estimate Cannot be Made, an Explanation of the Facts of Why It Cannot be Made Shall be Provided:

- (1) Any losses suffered by the Company in the most recent two fiscal years and up to the annual report publication date due to labor disputes: None.
- (2) Possible expenses that could be incurred in the future and measures to be taken:

The Company attaches great importance to the welfare of its employees and maintains harmonious labor relations. There has been no labor dispute in the most recent two fiscal years and up to the annual report publication date. It is expected that there will be no major labor dispute in the future.

VI. Cyber Security Management:

- (I) Describe the cyber security risk management framework, cyber security policies, concrete management programs, and investments in resources for cyber security management.

The Company attaches great importance to information security and personal data protection management. The Company has established an information security organization to review various information security policies, assess information system risks, plan appropriate response measures and emergency recovery procedures. The Company conducts data backup and restoration tests on a regular basis, and regularly reviews and drills the emergency response and recovery procedures of the system. The Company has established a personal data protection enforcement team to ensure the compliance of protection and management of personal data with laws and regulations. The Company takes inventory of personal data by category to protect the personal data of employees and external customers and manufacturers. The Company promotes information security to internal colleagues from time to time, and establishes the concept of information security and personal information protection among employees. The Company prevents employees from being attacked by the network when operating the computer information system due to employees' lack of security concept, and prevents the system from being hacked or infected by computer viruses.

The Company has not suffered from any significant cyber security incidents in the most recent two fiscal years and up to the annual report publication date.

- (II) The Company has not suffered from any losses in the most recent two fiscal years and up to the annual report publication date due to significant cyber security incidents.

VII. Important Contracts

Supply/distribution contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts, and other contracts that would affect shareholders' equity, where said contracts were either still effective as of the date of publication of the annual report, or expired in the most recent fiscal year.

| Type of Contract | Contracting Parties | Commencement and Expiration Date | Major Content | Restrictive Clauses |
|------------------|--|----------------------------------|---------------|---------------------|
| Lease contract | Yu Long Construction Co., Ltd. | 2022.8.1~2024.7.31 | Office lease | None |
| Lease contract | Hao Peng Investment Co., Ltd. Huang Wei Investment Co., Ltd. | 2020.6.3~2025.06.30 | Office lease | None |
| Credit contract | Chang Hwa Commercial Bank, Ltd. | 2023.12.14 ~2024.12.14 | Loan | None |
| Credit contract | Land Bank of Taiwan | 2023.12.11 ~ 2024.12.11 | Loan | None |
| Credit contract | Taishin International Bank | 2024.1.31 ~ 2025.1.31 | Loan | None |
| Credit contract | First Commercial Bank | 2024.3.4~2029.3.4 | Loan | None |

Chapter 6. Financial Overview

I. Condensed Balance Sheets and Statements of Comprehensive Income for the Most Recent Five Fiscal Years

(I) Condensed Balance Sheet and Statement of Comprehensive Income

Condensed Balance Sheet — Consolidated

Unit: NT\$ thousand

| Item \ Fiscal Year | | Financial Information for the Most Recent Five Fiscal Years (Note 1) | | | | |
|---|---------------------|--|-----------|-----------|-----------|---------------------|
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| Current Assets | | 306,000 | 359,630 | 596,135 | 518,842 | 451,953 |
| Property, Plant, and Equipment | | 186,218 | 95,330 | 84,392 | 57,785 | 29,352 |
| Intangible Assets | | 30,114 | 26,437 | 20,287 | 14,177 | 9,042 |
| Other Assets | | 46,060 | 75,411 | 63,540 | 38,986 | 18,588 |
| Total Assets | | 568,392 | 556,808 | 764,354 | 629,790 | 508,935 |
| Current Liabilities | Before Distribution | 118,443 | 168,650 | 104,218 | 121,048 | 80,616 |
| | After Distribution | 118,443 | 168,650 | 104,218 | 121,048 | Not yet distributed |
| Non-current Liabilities | | 1,299 | 16,023 | 16,023 | 11,083 | 2,211 |
| Total Liabilities | Before Distribution | 119,742 | 184,673 | 113,548 | 132,131 | 82,827 |
| | After Distribution | 119,742 | 184,673 | 113,548 | 132,131 | Not yet distributed |
| Equity Attributable to Owners of the Parent | | 448,650 | 372,135 | 650,806 | 497,659 | 426,108 |
| Capital Stock | | 808,596 | 646,877 | 746,877 | 746,877 | 569,659 |
| Capital Surplus | | 0 | 0 | 176,995 | 0 | 76,464 |
| Retained Earnings | Before Distribution | (359,946) | (274,742) | (273,066) | (249,218) | (220,015) |
| | After Distribution | (359,946) | (274,742) | (273,066) | (249,218) | Not yet distributed |
| Other Equity | | 0 | 0 | 0 | 0 | 0 |
| Treasury Stock | | 0 | 0 | 0 | 0 | 0 |
| Non-controlling Interests | | 0 | 0 | 0 | 0 | 0 |
| Total Equity | Before Distribution | 448,650 | 372,135 | 650,806 | 497,659 | 426,108 |
| | After Distribution | 448,650 | 372,135 | 650,806 | 497,659 | Not yet distributed |

Note 1. Financial information from 2019 to 2023 has been audited and attested by the CPAs.

Condensed Comprehensive Income Statement — Consolidated

Unit: NT\$ thousand

| Item \ Fiscal Year | Financial Information for the Most Recent Five Fiscal Years (Note 1) | | | | |
|--|--|-----------|---------|-----------|-----------|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| Operating Revenue | 633,419 | 650,504 | 692,352 | 402,605 | 275,641 |
| Gross Profit | 177,083 | 146,116 | 229,488 | 116,429 | 15,315 |
| Operating Income | (118,989) | (140,295) | (3,438) | (121,136) | (207,955) |
| Non-operating Income and Expenses | (1,196) | 66,592 | 4,759 | (5,558) | (13,778) |
| Income before Tax | (120,185) | (73,703) | 1,321 | (126,694) | (221,733) |
| Net Income for the Period from Continuing Operations | (120,178) | (78,355) | 1,158 | (156,559) | (220,015) |
| Loss from Discontinued Operations | 0 | 0 | 0 | 0 | 0 |
| Net Income (Loss) for the Current Period | (120,178) | (78,355) | 1,158 | (156,559) | (220,015) |
| Other Comprehensive Income for the Current Period (Net of Tax) | 206 | 1,840 | 518 | 3,412 | - |
| Total Comprehensive Income or Loss for the Period | (119,972) | (76,515) | 1,676 | (153,147) | (220,015) |
| Net Income Attributable to Shareholders of the Parent | (120,178) | (78,355) | 1,158 | (156,559) | (220,015) |
| Net Income Attributable to Non-controlling Interests | 0 | 0 | 0 | 0 | 0 |
| Comprehensive Income Attributable to Owners of the Parent | (119,972) | (76,515) | 1,676 | (153,147) | (220,015) |
| Comprehensive Income Attributable to Non-controlling Interests | 0 | 0 | 0 | 0 | 0 |
| Earnings per Share | (1.86) | (1.21) | 0.02 | (3.15) | (4.34) |

Note 1. Financial information from 2019 to 2023 has been audited and attested by the CPAs.

Condensed Balance Sheet — Parent Company Only

Unit: NT\$ thousand

Unit: PUS thousand

| Fiscal Year Item | | Financial Information for the Most Recent Five Fiscal Years (Note 1) | | | | |
|---|---------------------|--|-----------|-----------|-----------|---------------------|
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| Current Assets | | 303,528 | 357,337 | 593,926 | 518,782 | 451,953 |
| Property, Plant, and Equipment | | 186,218 | 95,330 | 84,392 | 57,785 | 29,352 |
| Intangible Assets | | 29,999 | 26,437 | 20,287 | 14,177 | 9,042 |
| Other Assets | | 48,607 | 77,658 | 65,707 | 38,986 | 18,588 |
| Total Assets | | 568,352 | 556,762 | 764,312 | 629,730 | 508,935 |
| Current Liabilities | Before Distribution | 118,403 | 168,604 | 104,176 | 120,988 | 80,616 |
| | After Distribution | 118,403 | 168,604 | 104,176 | 120,988 | Not yet distributed |
| Non-current Liabilities | | 1,299 | 16,023 | 9,330 | 11,083 | 2,211 |
| Total Liabilities | Before Distribution | 119,702 | 184,627 | 113,506 | 132,071 | 82,827 |
| | After Distribution | 119,702 | 184,627 | 113,506 | 132,071 | Not yet distributed |
| Equity Attributable to Owners of the Parent | | 0 | 0 | 0 | 0 | 426,108 |
| Capital Stock | | 808,596 | 646,877 | 746,877 | 746,877 | 569,659 |
| Capital Surplus | | 0 | 0 | 0 | 0 | 76,464 |
| Retained Earnings | Before Distribution | (359,946) | (274,742) | (273,066) | (249,218) | (220,015) |
| | After Distribution | (359,946) | (274,742) | (273,066) | (249,218) | Not yet distributed |
| Other Equity | | 0 | 0 | 0 | 0 | 0 |
| Treasury Stock | | 0 | 0 | 0 | 0 | 0 |
| Non-controlling Interests | | 0 | 0 | 0 | 0 | 0 |
| Total Equity | Before Distribution | 448,650 | 372,135 | 650,806 | 497,659 | 426,108 |
| | After Distribution | 448,650 | 372,135 | 650,806 | 497,659 | Not yet distributed |

Note: Financial information from 2019 to 2023 has been audited and attested by the CPAs.

Condensed Comprehensive Income Statement — Parent Company Only

Unit: NT\$ thousand

| Fiscal Year Item | Financial Information for the Most Recent Five Fiscal Years(Note 1) | | | | |
|--|---|-----------|---------|-----------|-----------|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| Operating Revenue | 633,337 | 650,506 | 692,359 | 402,537 | 275,641 |
| Gross Profit | 176,998 | 146,109 | 229,462 | 116,426 | 15,315 |
| Operating Income | (117,947) | (139,990) | (3,357) | (121,056) | (207,955) |
| Non-operating Income and Expenses | (2,238) | 66,287 | 4,678 | (5,638) | (13,778) |
| Income before Tax | (120,185) | (73,703) | 1,321 | (126,694) | (221,733) |
| Net Income for the Period from Continuing Operations | (120,178) | (78,355) | 1,158 | (156,559) | (220,015) |
| Loss from Discontinued Operations | 0 | 0 | 0 | 0 | 0 |
| Net Income (Loss) for the Current Period | (120,178) | (78,355) | 1,158 | (156,559) | (220,015) |
| Other Comprehensive Income for the Current Period (Net of Tax) | 206 | 1,840 | 518 | 3,412 | - |
| Total Comprehensive Income or Loss for the Period | (119,972) | (76,515) | 1,676 | (153,147) | (220,015) |
| Net Income Attributable to Shareholders of the Parent | (120,178) | (78,355) | 1,158 | (156,559) | (220,015) |
| Net Income Attributable to Non-controlling Interests | 0 | 0 | 0 | 0 | 0 |
| Comprehensive Income Attributable to Owners of the Parent | (119,972) | (76,515) | 1,676 | (153,147) | (220,015) |
| Comprehensive Income Attributable to Non-controlling Interests | 0 | 0 | 0 | 0 | 0 |
| Earnings per Share | (1.86) | (1.21) | 0.02 | (3.15) | (4.34) |

Note 1: Financial report audited and attested by the CPAs.

(II) Name of CPAs and Audit Opinions for the Most Recent Five Years

| Fiscal Year | Accounting Firm | Name of CPAs | Audit Opinion |
|-------------|-----------------|----------------------|---------------------|
| 2019 | KPMG Taiwan | Grace Lu and Alen Yu | Unqualified opinion |
| 2020 | KPMG Taiwan | Grace Lu and Alen Yu | Unqualified opinion |
| 2021 | KPMG Taiwan | Grace Lu and Alen Yu | Unqualified opinion |
| 2022 | KPMG Taiwan | Grace Lu and Alen Yu | Unqualified opinion |
| 2023 | KPMG Taiwan | Grace Lu and Alen Yu | Unqualified opinion |

II. Financial Analysis for the Most Recent Five Fiscal Years

Financial Analysis — Consolidated

| Fiscal Year | | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|--|---------|---------|----------|----------|----------|
| Analysis Item | | | | | | |
| Financial structure (%) | Debt to assets ratio (%) | 21.07 | 33.17 | 14.86 | 20.98 | 16.27 |
| | Ratio of long-term capital to property, plant, and equipment (%) | 241.62 | 407.17 | 782.23 | 880.40 | 1,459.25 |
| Solvency % | Current ratio (%) | 258.35 | 213.24 | 572.01 | 428.63 | 560.62 |
| | Quick ratio (%) | 123.77 | 99.01 | 249.39 | 104.45 | 223.87 |
| | Times interest earned (%) | (86.66) | (80.53) | 2.03 | (188.95) | (123.57) |
| Operating performance | Accounts receivable turnover (times) | 6.13 | 9.28 | 9.65 | 5.98 | 6.87 |
| | Average collection days | 59.54 | 39.33 | 37.82 | 61.03 | 53.12 |
| | Inventory turnover (times) | 2.27 | 2.91 | 1.76 | 0.79 | 0.79 |
| | Accounts payable turnover (times) | 12.71 | 14.78 | 12.02 | 20.64 | 161.79 |
| | Average days in sale | 160.79 | 125.42 | 207.38 | 462.02 | 462.02 |
| | Property, plant, and equipment turnover (times) | 3.29 | 4.62 | 7.70 | 5.66 | 6.33 |
| | Total assets turnover (times) | 0.96 | 1.16 | 1.05 | 0.58 | 0.48 |
| Profitability | Return on total assets (%) | (18.03) | (13.80) | 0.33 | (22.38) | (38.39) |
| | Return on equity (%) | (23.63) | (19.09) | 0.23 | (27.26) | (47.63) |
| | Ratio of income before tax to paid-in capital (%) | (14.86) | (11.39) | 0.18 | (16.96) | (38.92) |
| | Net profit margin (%) | (18.97) | (12.05) | 0.17 | (38.89) | (79.82) |
| | Earnings per share (NT\$) | (1.49) | (1.21) | 0.02 | (3.15) | (4.34) |
| Cash flow | Cash flow ratio (%) | 26.18 | (28.45) | (126.23) | (121.56) | (22.28) |
| | Cash flow adequacy ratio (%) | (72.89) | (65.98) | (66.79) | (68.98) | (8.58) |
| | Cash reinvestment ratio (%) | 5.76 | (11.02) | (18.16) | (24.95) | (1.27) |
| Leverage | Operating leverage | (1.09) | (0.8) | (66.03) | (0.92) | (0.08) |
| | Financial leverage | 0.99 | 0.99 | 0.73 | 0.99 | (8.58) |

Reasons for changes in financial ratios for the most recent two fiscal years: (Analysis is not be required if such changes are within 20%.)

1. The decrease in the ratio of liabilities to assets in the current period is mainly due to the decrease in liabilities and the decrease in bank borrowings due to cash capital increase.
2. The increase in the ratio of long-term funds to real estate, plants and equipment in this period is mainly due to the decrease in real estate, plants and equipment. This is due to the fact that some production equipment and mold equipment have no future economic benefits and are recognized as impairment losses.
3. The increase in current ratio and quick ratio in the current period is mainly due to the decrease

in current liabilities and the decrease in bank borrowings due to cash capital increase.

4. The increase in interest coverage ratio for the current period was mainly due to the increase in net loss for the current period.

5. The increase in the turnover rate of accounts payable in this period is mainly due to the company's active removal of existing inventory and the adoption of a just-in-time production model, which reduced accounts payable.

6. The decrease in return on assets in the current period is mainly due to the decrease in real estate, factories and equipment. It is due to the fact that some production equipment and mold equipment have no future economic benefits and are recognized as impairment losses.

7. The current period's return on equity, ratio of pre-tax net profit to paid-in capital, after-tax net profit ratio, earnings per share and operating leverage decreased, mainly due to the decrease in after-tax net profit.

8. The increase in cash flow ratio and cash reinvestment ratio in the current period is mainly due to the increase in net cash inflow from operating activities, which is caused by the company's active inventory reduction and cash inflow.

Note 1. Financial information from 2019 to 2023 has been audited and attested by the CPAs.

1. Financial structure

- (1) Debt to assets ratio = total liabilities / total assets.
- (2) Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
- (3) Times interest earned = Earnings before tax and interest expenses / current interest expenses.

3. Operating performance

- (1) Accounts receivable (including accounts receivable and notes receivable arising from business activities) turnover = Net sales / Average accounts receivable balance (including accounts receivable and notes receivable arising from business activities).
- (2) Average collection days = 365 / accounts receivable turnover.
- (3) Inventory turnover = cost of goods sold / average inventory.
- (4) Accounts payable (including accounts payable and notes payable arising from business activities) turnover = cost of goods sold / average accounts payable balance (including accounts payable and notes payable arising from business activities).
- (5) Average days in sales = 365 / inventory turnover.
- (6) Property, plant and equipment turnover = net sales / average net property, plant and equipment.
- (7) Total asset turnover = net sales / average total assets.

4. Profitability

- (1) Return on total assets = (net income + interest expenses * (1 - effective tax rate)) / average total assets.
- (2) Return on equity = net income after tax / average total equity.
- (3) Net profit margin = net income after tax / net sales.
- (4) Earnings per share = (income attributable to owners of parent - preferred stock dividends) / weighted average number of shares outstanding. (Note 4)

5. Cash Flow

- (1) Cash flow ratio = net cash flows from operating activities / current liabilities.
- (2) Net cash flow adequacy ratio = 5-year sum of net cash flow from operating activities / 5-year sum of (capital expenditures + increases in inventory + cash dividends).

(3) Cash reinvestment ratio = (cash from operating activities - cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital). (Note 5)

6. Leverage:

(1) Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income (Note 6).

(2) Financial leverage = operating income / (operating income – interest expenses).

Financial Analysis – Parent Company Only

| Analysis Item \ Fiscal Year (Note) | | Financial Analysis for the Most Recent Five Fiscal Years | | | | |
|------------------------------------|--|--|---------|----------|----------|----------|
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| Financial structure (%) | Debt to assets ratio (%) | 21.06 | 33.16 | 14.85 | 20.97 | 16.27 |
| | Ratio of long-term capital to property, plant, and equipment (%) | 241.62 | 407.17 | 782.23 | 880.4 | 1,459.25 |
| Solvency (%) | Current ratio (%) | 256.35 | 211.94 | 570.12 | 428.79 | 560.62 |
| | Quick ratio (%) | 121.78 | 97.71 | 247.43 | 104.45 | 223.87 |
| | Times interest earned (%) | (86.66) | (80.53) | 2.03 | (188.95) | (123.57) |
| Operating performance | Accounts receivable turnover (times) | 6.13 | 9.28 | 9.65 | 5.98 | 6.88 |
| | Average collection days | 59.54 | 39.33 | 37.82 | 61.03 | 53.05 |
| | Inventory turnover (times) | 2.27 | 2.91 | 1.76 | 0.79 | 0.79 |
| | Accounts payable turnover (times) | 12.71 | 14.79 | 12.02 | 20.63 | 161.79 |
| | Average days in sale | 160.79 | 125.43 | 207.39 | 462.02 | 462.02 |
| | Property, plant, and equipment turnover (times) | 3.29 | 4.62 | 7.70 | 5.66 | 6.33 |
| | Total assets turnover (times) | 0.96 | 1.16 | 1.05 | 0.58 | 0.48 |
| Profitability | Return on total assets (%) | (18.03) | (13.79) | 0.33 | (22.38) | (38.39) |
| | Return on equity (%) | (23.63) | (19.09) | 0.23 | (27.26) | (47.63) |
| | Ratio of income before tax to paid-in capital (%) | (14.86) | (11.39) | 0.18 | (16.96) | (38.92) |
| | Net profit margin (%) | (18.98) | (12.05) | 0.17 | (38.89) | (79.82) |
| | Earnings per share (NT\$) | (1.49) | (1.21) | 0.02 | (3.15) | (4.34) |
| Cash flow | Cash flow ratio (%) | 26.95 | (28.36) | (126.19) | (121.59) | (23.24) |
| | Cash flow adequacy ratio (%) | (72.20) | (73.41) | (67.36) | (68.7) | (76.82) |
| | Cash reinvestment ratio (%) | 5.95 | (11.04) | (18.20) | (24.95) | (3.44) |
| Leverage | Operating leverage | (1.09) | (0.8) | (64.01) | (0.93) | (0.08) |
| | Financial leverage | 0.99 | 0.99 | 0.72 | 0.99 | 0.99 |

Reasons for changes in financial ratios for the most recent two fiscal years: (Analysis is not be required if such changes are within 20%.)

1. The decrease in the ratio of liabilities to assets in the current period is mainly due to the decrease in liabilities and the decrease in bank borrowings due to cash capital increase.
2. The increase in the ratio of long-term funds to real estate, plants and equipment in this period is mainly due to the decrease in real estate, plants and equipment. This is due to the fact that some production equipment and mold equipment have no future economic benefits and are recognized as impairment losses.
3. The increase in current ratio and quick ratio in the current period is mainly due to the decrease in current liabilities and the decrease in bank borrowings due to cash capital increase.
4. The increase in interest coverage ratio for the current period was mainly due to the increase in net loss for the current period.
5. The increase in the turnover rate of accounts payable in this period is mainly due to the company's active removal of existing inventory and the adoption of a just-in-time production model, which reduced accounts payable.
6. The decrease in return on assets in the current period is mainly due to the decrease in real estate, factories and equipment. It is due to the fact that some production equipment and mold equipment have no future economic benefits and are recognized as impairment losses.
7. The current period's return on equity, ratio of pre-tax net profit to paid-in capital, after-tax net profit ratio, earnings per share and operating leverage decreased, mainly due to the decrease in after-tax net profit.
8. The increase in cash flow ratio and cash reinvestment ratio in the current period is mainly due to the increase in net cash inflow from operating activities, which is caused by the company's active inventory reduction and cash inflow.

Note: Financial information from 2019 to 2023 has been audited and attested by the CPAs.

1. Financial structure

- (1) Debt to assets ratio = total liabilities / total assets.
- (2) Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
- (3) Times interest earned = Earnings before tax and interest expenses / current interest expenses.

3. Operating performance

- (1) Accounts receivable (including accounts receivable and notes receivable arising from business activities) turnover = Net sales / Average accounts receivable balance (including accounts receivable and notes receivable arising from business activities).
- (2) Average collection days = 365 / accounts receivable turnover.
- (3) Inventory turnover = cost of goods sold / average inventory.
- (4) Accounts payable (including accounts payable and notes payable arising from business activities) turnover = cost of goods sold / average accounts payable balance (including accounts payable and notes payable arising from business activities).
- (5) Average days in sales = 365 / inventory turnover.
- (6) Property, plant and equipment turnover = net sales / average net property, plant and equipment.
- (7) Total asset turnover = net sales / average total assets.

4. Profitability

- (1) $\text{Return on total assets} = (\text{net income} + \text{interest expenses} * (1 - \text{effective tax rate})) / \text{average total assets}.$
- (2) $\text{Return on equity} = \text{net income after tax} / \text{average net equity}.$
- (3) $\text{Net profit margin} = \text{net income after tax} / \text{net sales}.$
- (4) $\text{Earnings per share} = (\text{net income after tax} - \text{preferred stock dividends}) / \text{weighted average number of shares outstanding}.$ (Note 4)

5. Cash flow

- (1) $\text{Cash flow ratio} = \text{net cash flows from operating activities} / \text{current liabilities}.$
- (2) $\text{Net cash flow adequacy ratio} = 5\text{-year sum of net cash flow from operating activities} / 5\text{-year sum of (capital expenditures} + \text{increases in inventory} + \text{cash dividends}).$
- (3) $\text{Cash reinvestment ratio} = (\text{cash from operating activities} - \text{cash dividends}) / (\text{gross property, plant and equipment} + \text{long-term investments} + \text{other non-current assets} + \text{working capital}).$ (Note 5)

6. Leverage:

- (1) $\text{Operating leverage} = (\text{net operating revenue} - \text{variable operating costs and expenses}) / \text{operating income}$ (Note 6).
- (2) $\text{Financial leverage} = \text{operating income} / (\text{operating income} - \text{interest expenses}).$

- III. Audit Committee's Review Report on Financial Statements for the Most Recent Fiscal Year: Please refer to Page 133.
- IV. Financial Statement for the Most Recent Fiscal Year: Please refer to Pages 134-192.
- V. Parent Company Only Financial Statements for the Most Recent Year Audited and Attested by CPAs: Please refer to the Chinese version Annual Report Pages 193-242
- VI. If the Company or its Affiliates have Experienced Financial Difficulties in the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report, the Annual Report shall Explain how Said Difficulties will Affect the Company's Financial Situation: None.

Chapter 7. Review and Analysis of Financial Position and Financial Performance, and Risk Issues

I. Analysis of Financial Position

Unit: NT\$ thousand

| Item \ Fiscal Year | 2023 | 2022 | Difference | |
|--------------------------------|-----------|-----------|------------|------|
| | | | Amount | % |
| Current Assets | 451,953 | 518,842 | (66,889) | (13) |
| Property, Plant, and Equipment | 29,352 | 57,785 | (28,433) | (49) |
| Intangible Assets | 9,042 | 14,177 | (5,135) | (36) |
| Other Assets | 18,588 | 38,986 | (20,398) | (52) |
| Total Assets | 508,935 | 629,790 | (120,855) | (19) |
| Current Liabilities | 80,616 | 121,048 | (40,432) | (33) |
| Non-current Liabilities | 2,211 | 11,083 | (8,872) | (80) |
| Total Liabilities | 82,827 | 132,131 | (49,304) | (37) |
| Common Stock | 569,659 | 746,877 | (177,218) | (24) |
| Capital Surplus | 76,464 | - | 76,464 | 100 |
| Accumulated Deficits | (220,015) | (249,218) | 29,203 | 12 |
| Total Equity | 426,108 | 497,659 | (71,551) | (14) |

Explanation of increase (decrease) of 20% or more:

- (1) The decrease in real estate, plants and equipment in the current period is mainly due to the fact that some production equipment and mold equipment have no future economic benefits and are recognized as impairment losses.
- (2) The decrease in intangible assets in the current period is mainly due to the fact that some specialized technologies have reached the amortization period.
- (3) The decrease in other assets in the current period was mainly due to the amortization of the right-of-use assets according to the contract period, which reduced the right-of-use assets, and the settlement of old-system pensions, which returned the net defined benefit assets to zero.
- (4) The decrease in current liabilities in the current period was mainly due to the cash capital increase and the decrease in bank borrowings.
- (5) The decrease in non-current liabilities in the current period is mainly due to the decrease in lease liabilities due to the amortization of lease liabilities based on the contract period, and the settlement of deferred income tax liabilities recognized in previous years when the old system pension was reversed.
- (6) The decrease in share capital during the current period was mainly due to capital reduction to make up for losses.
- (7) The increase in capital reserve in the current period was mainly due to the premium of ordinary shares in cash capital increase.

II. Analysis of Financial Performance

Unit: NT\$ thousand

| Item \ Fiscal Year | 2023 | 2022 | Amount of Increase (Decrease) | Rate of Change (%) |
|--------------------|-----------|-----------|-------------------------------|--------------------|
| | | | | |
| Operating Revenues | 275,641 | 402,605 | (126,964) | (32) |
| Operating Costs | 260,326 | 286,176 | (25,850) | (9) |
| Gross Profit | 15,315 | 116,429 | (101,114) | (87) |
| Operating Expenses | 223,270 | 237,565 | (14,295) | (6) |
| Net Operating Loss | (207,955) | (121,136) | (86,819) | (72) |

| | | | | |
|-----------------------------------|-----------|-----------|----------|-------|
| Non-operating Income and Expenses | (13,778) | (5,558) | (8,220) | (148) |
| Profit Expenses (Loss) before Tax | (221,733) | (126,694) | (95,039) | (75) |
| Income Tax Profit Expenses | (1,718) | 29,865 | (31,583) | (106) |
| Net (Loss) Profit for the period | (220,015) | (156,559) | (63,456) | (41) |

Explanation of increase (decrease) of 20% or more:

- (1) The decrease in operating income in this period is mainly due to the decline in market demand for USB products and the reduction in sales of related parties during the conversion period of new and old products.
- (2) The decrease in operating gross profit and operating net profit in the current period is mainly due to the decrease in operating income but not the proportional decrease in operating costs. This is due to the lack of market demand for early MEMS products and the provision of inventory depreciation losses.
- (3) The decrease in non-operating income and expenses in the current period was mainly due to the recognition of impairment losses as some production equipment and mold equipment have no future economic benefits, and the decrease in foreign currency exchange gains and losses.
- (4) The decrease in net profit before tax for the current period was mainly due to the decrease in operating gross profit.
- (5) The decrease in income tax expense for the current period was mainly due to the reversal of deferred income tax assets in the same period last year.
- (6) The decrease in net profit for the current period was mainly due to the decrease in operating gross profit.

III. Cash Flow Analysis

(I) Analysis of Changes in Cash Flows in the Most Recent Fiscal Year

Unit: NT\$ thousand

| Fiscal Year Item | 2023 | 2022 | Rate of Change (%) |
|----------------------|----------|-----------|--------------------|
| Operating Activities | (17,960) | (147,142) | 88 |
| Investing Activities | (11,855) | (13,957) | 15 |
| Financing Activities | 105,590 | 55,280 | 91 |
| Total | 75,775 | (105,819) | 172 |

Analysis:

1. The increase in net cash inflow from operating activities in this period was mainly due to the cash inflow brought by the company's active inventory reduction.
2. The increase in net cash inflow from financing activities in this period is mainly due to the increase in cash capital in this per

(II) Future Cash Flow Analysis:

The actual cash and equivalent cash balance in 2023 increased by NT\$ 45,099 thousand compared with the estimated amount, which mainly brought sufficient cash inflow for the cash capital increase. The expected full-year cash flow situation in 2024 is as follows:

Unit: NT\$ thousand

| Cash and cash equivalents at beginning of 2024 (1) | Cash flows from operating activities for the Coming Year (2) | Cash flows used in operating activities for the Coming Year (3) | Cash and cash equivalents at end of 2023 (1)+(2)-(3) | Future plan for unenough cash and cash equivalents | |
|--|--|---|--|--|----------------|
| | | | | Investment plan | Financial plan |
| 141,727 | 64,492 | 21,579 | 184,640 | N/A | N/A |
| 1. Future cash flow analysis : Operating activities: Net cash inflow is expected in 2024, mainly from the sale of 2023 inventory in 2024. Investment activities: Net cash outflows are expected in 2024, mainly due to the purchase of equipment and software. Financing activities: Net cash outflows are expected in 2024, mainly due to repayment of bank borrowings and lease principal. 2. Future plan for unenough cash and cash equivalents : N/A | | | | | |

IV. Effect on Financial Operations of Any Major Capital Expenditures during the Most Recent Fiscal Year: None.

V. The reinvestment policy of the most recent year, the main reasons for its profits or losses, improvement plans and investment plans for the next year:

The board of directors of Vich IP Corporation Limited approved the dissolution and liquidation on November 3, 2022, and the relevant legal procedures were completed on October 24, 2023.

VI Risk Analysis and Assessment

(I) Effect on the Profit (Loss) of Interest and Exchange Rate Fluctuations and Changes in the Inflation Rate, and Response Measures to Be Taken in the Future

1. Effect on the Profit (Loss) of Changes in Interest Rate and Response Measures to Be Taken in the Future

(1) Effect on the profit (loss) of changes in interest rate

| Item/Fiscal Year | Unit: NT\$ thousand; % | |
|--|------------------------|--|
| | 2023 | |
| Interest Expense(A) | 1,780 | |
| Net Operating Revenue(B) | 275,641 | |
| Net Profit (Loss) before Tax(C) | (221,733) | |
| Interest Expense/Operating Revenue(A)/(B) | 0.65% | |
| Interest Expense/Net Profit (loss) before Tax(A)/(C) | 0.80% | |

The Company's interest expense was NT\$1,780 thousand in 2023, which accounted for approximately 0.65% of the operating revenue. The changes in interest rate did not have a material impact on the Company's operations.

- (2) Specific measures taken by the Company in response to changes in interest rate

The Company always pays attention to the changes in domestic and foreign economic environment and interest rate, and keeps close contact with banks for more favorable interest rate terms.

2. Effect on the Profit (Loss) of Changes in Exchange Rate and Response Measures to Be Taken in the Future

- (1) Effect on the profit (loss) of changes in exchange rate

| Unit: NT\$ thousand; % | |
|---|-----------|
| Item/Fiscal Year | 2023 |
| Net Exchange Gain (Loss) | (269) |
| Net Operating Revenue | 275,641 |
| Net Profit (loss) before Tax | (221,733) |
| Ratio of Net Exchange Gain (Loss) to Net Operating Revenue | 0.10% |
| Ratio of Net Exchange Gain (Loss) to Net Profit (loss) before Tax | 0.12% |

The products sold by the Company were mainly denominated in US dollars, and the purchases were also mainly denominated in US dollars. Therefore, the trend of US dollar exchange rate is quite correlated with the change of the Company's exchange gains and losses. The Company's exchange loss

was NT\$ 269 thousand in 2023 which accounted for approximately 0.10%

of the net operating revenue. The changes in exchange rate did not have a material impact on the Company's earnings.

- (2) Specific measures taken by the Company in response to changes in exchange rate

The specific measures taken by the Company in response to the risk of exchange rate fluctuations mainly focused on offsetting the foreign currency payable due to purchase and short-term foreign currency bank loans by the increase in foreign currency receivable from the US dollar transactions, so as to achieve the effect of Natural Hedge. In addition, the financial department collects exchange rate information on a daily basis to analyze the future trends of exchange rate, and purchases forward exchange to hedge the net foreign currency position remained after natural hedging in accordance with the Company's Operation Procedures for Acquisition or Disposal of Assets, so as to reduce the risk of exchange rate fluctuations.

3. Effect on the Profit (Loss) of Changes in the Inflation Rate and Response Measures to Be Taken in the Future

A. Effect on the profit (loss):

The Company is always aware of fluctuations in market prices and has not suffered from any significant impact on profit and loss due to inflation.

B. Response measures to be taken in the future:

The Company pays close attention to the changes in the relevant economic environment and market conditions, keeps a good interaction with suppliers and customers to ensure stable prices for raw materials, and seeks diversified suppliers to reduce the significant impact on profit and loss due to inflation.

(II) Policy regarding High-risk Investments, Highly Leveraged Investments, Loans to Other Parties, Endorsements/Guarantees, and Derivatives Transactions, Main Reasons for the Profit (Loss) Generated Thereby, and Response Measures to Be Taken in the Future

1. The Company has formulated its Operation Procedures for Acquisition and Disposal of Assets, Operation Procedures for Loaning Funds to Others and the Operation Procedures for Endorsements and Guarantees, which have been adopted by the resolution of the shareholders' meeting for compliance. During the current fiscal year and up to the date of publication of the annual report, the Company have carefully evaluated all its investments, and it did not engage in high-risk investments, highly leveraged investments, loans to other parties, endorsements or guarantees.

2. The Company's policy regarding derivatives transactions; the main reasons for the profits/losses generated thereby; and response measures to be taken in the future

(1) The Company conducts trading and management of derivatives in accordance with the Operation Procedures for Acquisition and Disposal of Assets adopted by the board of shareholders.

(2) The Company mainly trades derivatives for non-trading purposes, mainly in the form of forward exchange contracts, to avoid the risk of assets or liabilities denominated in foreign currencies arising from exchange rate fluctuations.

(3) The Company conducts operation in a conservative and prudent manner and will continue to hedge its foreign exchange position and avoid inappropriate risky transactions.

(III) R&D Work to Be Carried Out in the Future and Further Expenditures Expected for R&D Work

Unit: NT\$ thousand

| | Products Description | Current Progress | Expected R&D Expenditure | Expected Mass Production Time | Major Factors Influencing the Success of Future R&D |
|---|--|-------------------|--------------------------|-------------------------------|---|
| 1 | PCIe4x4 SSD Flash Controller FW&MP For NEW 3D NAND Flash | Under Development | 50,000 | 2024.4Q | 1. Product firmware architecture design 2. Finished product compatibility 3. Product read-write speed and high debugging efficiency |
| 2 | New USB3.2 Controller for New 3D NAND Flash | Under Development | 60,000 | 2024.2Q | 1. Product architecture design 2. Finished product compatibility 3. Product read-write speed |
| 3 | High performance Digital MEMS Microphone (Sen-26dB, SNR>67dB) | Under Development | 15,000 | 2024.4Q | 1. MEMS diaphragm design 2. Preamp high SNR circuit design 3. Sigma Delta ADC circuit design |
| 4 | High performance Digital MEMS Microphone (SNR 65 DB/AOP 130DB) | Under Development | 15,000 | 2024.4Q | 1.MEMS diaphragm design 2.Preamp high SNR circuit design 3.Sigma Delta ADC circuit design |

(IV) Effect on the Financial Operations of Important Policies Adopted and Changes in the Legal Environment at Home and Abroad, and Measures to Be Taken in Response

The Company abides by national policies and laws. Relevant units pay close attention to changes in important policy and legal environment, and coordinate with the adjustment of the Company's internal system and business activities to ensure smooth operation of the Company. The Company will continue to keep an eye on the changes in important policy and legal environment at home and abroad in the future, and evaluate and respond to the changes as appropriate.

(V) Effect on the Financial Operations of Developments in Science and Technology (Including Cyber Security Risks) as well as Industrial Change, and Measures to Be Taken in Response

The Company attaches great importance to technical support manpower and capabilities, and actively develops deeply in the market to quickly respond to industrial changes. In the future, it will continue to keep eye on the changes and developments in science and technology related to the industry in which it operates, so as to launch products that meet market trends.

The Company has established a comprehensive network and computer-related information security protection measures, including network firewalls, spam

attacks, computer anti-virus and anti-hacking, and remote backup of important data. The Company always pays close attention to the new types of information security threats and hardware and software vulnerability attacks, and introduces security equipment as appropriate.

The Corporation continuously reviews and evaluates information security policies and procedures to ensure their appropriateness and effectiveness.

(VI) Effect on the Crisis Management of Changes in the Corporate Image, and Measures to Be Taken in Response

Since its establishment, the Company has been adhering to the business philosophy of integrity, professionalism, quality and innovation, and has moved towards the vision of a world-class manufacturer, actively strengthened internal management and improved management quality and performance, and maintained harmonious labor relations to maintain a good corporate image. No any event that damage the corporate image occurred during the current fiscal year and up to the date of publication of the annual report.

(VII) Expected Benefits and Possible Risks Associated with Any Mergers and Acquisitions, and Measures to Be Taken in Response

The Company has no merger or acquisition plans during the current fiscal year up to the date of publication of the annual report. If any, we will prudently evaluate and consider whether the merger will bring benefits to ensure shareholders' equity.

(VIII) Expected Benefits and Possible Risks Associated with Any Plant Expansion, and Measures to Be Taken in Response

The Company had no plans for plant expansion during the most recent year up to the date of publication of the annual report.

(IX) Risks Associated with Any Consolidation of Sales or Purchasing Operations, and Measures to Be Taken in Response

1. Purchase:

Since 2021, the production capacity of foundry production and packaging and testing available to the Company has been limited due to the increase in global wafer demand. The Company is currently actively working with major suppliers to increase production capacity and seeking new capacity cooperation with other foundries.

2. Sale:

Based on the characteristics of the industry, each major memory manufacturer supports each IC design company under strategic cooperation, forming the industrial competition alignment. Due to the industrial characteristics of the main products and the business model of the Company, there is sales consolidation of KIOXIA . KIOXIA is the second largest Flash Maker in the world, which is an important customer that the Company strives for. Orders from such customers are of significant benefit to the Company's performance. For the Company, the biggest risk of sales consolidation currently comes from order transfers by customers, which has

resulted in a large loss of performance. Since the Company and KIOXIA are strategic partners, as long as the Company continues to take the lead in technology and product launch, there would be little risk of order transfers by customers. The Company's response measures for sales consolidation are as follows:

- (1) Continue to deeply develop technology and do a good job of product planning, and provide customers with the best products in a timely manner.
 - (2) Strengthen strategic alliances with equity policies (e.g. private placement).
 - (3) Expand customer base to diversify customer concentration by adding the following products.
 - A. Add controller IC products that support NAND Flash applications, such as SSD.
 - B. Add controller IC products that support different NAND Flash companies, such as Micron and YMTC.
 - (4) Strengthen sales of MEMS microphone IC and USB Audio to increase product lines and diversify product risks.
 - (5) Develop customers in the Greater China region and expand the customer base to diversify the risk of customer consolidation.
- (X) Effect upon and Risk to the Company in the Event a Major Quantity of Shares Belonging to a Director, or Shareholder Holding Greater than a 10 Percent Stake in the Company has been Transferred or has otherwise Changed Hands, and Mitigation Measures being or to be Taken: None
- (XI) Effect upon and Risk to Company Associated with Any Change in Governance Personnel or Top Management, and Mitigation Measures being or to be Taken
- There has been no change in management control over the Company as there was no significant change in the Company's equity and business team or in its business strategy and policy during the most recent fiscal year up to the date of publication of the annual report.
- (XII) Litigation or Non-litigation: None.
- (XIII) Other Important Risks, and Mitigation Measures being or to be Taken: None.
- (XIV) Organization and Operation of Risk Management

The company has formulated "Risk Management Measures". Its risk management policies are based on the company's operating policies, defining various risks, and within the acceptable risk range, preventing possible losses, increasing shareholder value, and achieving the optimal allocation of resources. Optimization, in order to reasonably ensure the achievement of the company's strategic goals.

The Company's risk response organization is convened by the President according to the risk management measures established by the Board of Directors of the Company, to coordinate and direct the promotion and operation

of the risk management plan, with the participation of the management and employees of each department.

1. Board of Directors:

The Board of Directors of the Company shall be the highest authority in risk management of the Company. The Board of Directors aims to comply with laws and regulations, promote and implement the overall risk management of the Company, clearly understand the risks faced by the Company's operations, ensure the effectiveness of risk management, and assume the ultimate responsibility for risk management.

2. Auditing Office:

The auditing office of the Company performs risk monitoring and reports to the Board of Directors to ensure the effectiveness of risk management.

3. President's Office:

The President's Office of the Company is responsible for risk assessment of business decisions and implementation of mitigation strategies and human resources allocation and contingency.

4. Finance Department:

The Finance Department of the Company is responsible for the assessment of financial risks.

5. Business and management units:

All department heads and unit heads shall carry out risk assessment and control in their daily management operations, emphasize comprehensive risk control by all staff, and implement multi-level prevention at ordinary times to effectively manage risks.

Risk management is implemented in accordance with the three-tier risk management system:

| Risk Management Hierarchy | Operation of Risk Management |
|---------------------------|---|
| Tier 1 responsibility | Heads of functional departments or their undertakers are responsible for initial risk detection, assessment and control, design and prevention. |
| Tier 2 responsibility | The President is responsible for making decisions on feasibility and assessing, reporting and dealing with various risks. |
| Tier 3 responsibility | Audits, reports by the Auditing Office and deliberation by the Board of Directors. |

Establish information security risk management:

The Company attaches great importance to information security and personal data protection management. The Company has established an information security organization to review various information security policies, assess information system risks, plan appropriate response measures and emergency recovery procedures. The Company conducts data backup and restoration tests on a regular basis, and regularly reviews and drills the emergency response and recovery procedures of the system. The Company has established a personal data protection enforcement team to ensure the compliance of protection and management of personal data with laws and regulations. The Company takes inventory of personal data by category to protect the personal data of employees and external customers and manufacturers. The Company promotes information security to internal colleagues from time to time, and establishes the concept of information security and personal information protection among employees. The Company prevents employees from being attacked by the network when operating the computer information system due to employees' lack of security concept, and prevents the system from being hacked or infected by computer viruses.

VII. Other Important Matters: None.

Chapter 8. Special Disclosure

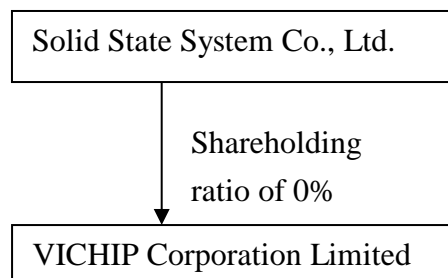
I. Information on Affiliates

(I) Consolidated Business Report of Affiliated Companies

1. Organizational Structure of Affiliated Companies

Investment Chart of Solid State System Co., Ltd.

Date: December 31, 2023



2. Basic Information of Affiliated Companies

| Name of Affiliate | Date of Incorporation | Address | Paid-in Capital | Major Lines of Business or Products |
|----------------------------|-----------------------|---|--------------------|-------------------------------------|
| VICHIP Corporation Limited | 2003.02.27 | 5F.-1, No. 22, Taiyuan St., Zhubei City, Hsinchu County 302082, Taiwan (R.O.C.) | NT\$5,005 thousand | Audio product sales |

3. The Shareholders in Common of Companies Presumed to have a Relationship of Control and Subordination: Not applicable.

4. The Industries Covered by the Business Operated by the Affiliates Overall:

The Company and its affiliates are engaged in the research and development, production and sales of integrated circuits, related consulting services and sales of audio products.

5. Directors, Supervisors, and Presidents of Affiliated Companies: Not applicable.

6. Operations Overview of Affiliates

December 31, 2023; Unit: NT\$ thousand unless otherwise indicated

| Name of Affiliate | Paid-in Capital | Total Assets | Total Liabilities | Net Worth | Operating Revenue for the Current Period | Operating Profit for the Current Period | Profit or Loss (after Tax) | Earnings per Share (NT\$) (after Tax) |
|----------------------------|-----------------|--------------|-------------------|-----------|--|---|----------------------------|---------------------------------------|
| VICHIP Corporation Limited | - | - | - | - | - | - | - | - |

Note: 3S's board of directors approved the dissolution and liquidation of its subsidiary Vich IP Corporation Limited on November 3, 2022, and the relevant legal liquidation procedures were completed on October 24, 2023.

(II) Consolidated Financial Statements of Affiliated Companies:

As the "companies" in the business reports of affiliated enterprises are all the same as companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in the International Financial Reporting Standards No.10 (IFRS 10) approved by the Financial Supervisory Commission (FSC), and relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the proceeding consolidated financial statements of parent and subsidiary companies, thus the Company is not required to prepare separate consolidated financial statements of affiliates. Please refer to Page 134 of the Consolidated Financial Statements for the Company's Statement.

(III) Affiliation Reports: The Company does not fall as the subordinate company as stipulated in the affiliated enterprises chapter of the Company Act, so it is not applicable.

II. Private Placement of Securities during the Most Recent Fiscal Year and during the Current Fiscal Year Up to the Date of Publication of the Annual Report:

| Item | 1st private placement in 2023 Issue date: November 2, 2023 |
|--|--|
| Date of approval by the shareholders meeting and amount approved | May 16, 2023 20,000,000 shares of common stock |
| Basis and rationality of price setting | <p>(1) The issue price of the privately-placed common shares shall not be lower than 80% of the higher price calculated on the following two bases before the price determination date:</p> <p>① The simple average closing price of the common shares of the Company for either the one, three, or five business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends or capital reduction.</p> <p>② The simple average closing price of the common shares of the Company for the thirty business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction.</p> <p>③ The actual issue price shall be determined under the above-mentioned rule. It is hereby proposed to authorize the Board of Directors by the resolution adopted at the shareholders' meeting to determine the issue price based on the situation of specific persons and the market conditions.</p> <p>(2) The rationality of the pricing of the private placement:</p> <p>① The rationality of the method for the determination of the pricing of the private placement: Since such method refers to the market price of the common shares of the Company and is in line with the practices of the issue market, the pricing of the privately-placed common shares shall be reasonable.</p> <p>② The rationality of the applicable regulation for the pricing of the</p> |

| | | | | | |
|---|---|---|-----------------------|-------------------------------|---|
| | private placement: Since such method complies with Directions for Public Companies Conducting Private Placements of Securities, the pricing of the privately-placed common shares shall be reasonable. | | | | |
| Method of selection of qualified persons | The Company has yet to select any subscriber, and will select the subscriber(s) in accordance with Article 43-6, Security and Exchange Act. Such subscriber(s) shall be the strategic investors meeting the conditions prescribed by the competent authority. | | | | |
| Reason for necessity of private placement | Considering the lower cost of the capital, the effectiveness of the funding process, the Company desires to raise the capital through the private placement of securities. In addition, if the Board of Directors is authorized to conduct the private placement of securities according to the actual operational needs of the Company, it will be helpful for the Company to increase the mobility and flexibility of the fundraising. In short, it is indeed necessary to raise the capital through the private placement of securities. | | | | |
| Share payment completion date | November 16, 2023 | | | | |
| Information on the placees | Counterparty of the private placement | Qualifications | Subscription quantity | Relationship with the Company | Participation in the Company's operations |
| | ZHI HAO JIANG | Comply with Article 43-6, Paragraph 1, Paragraph 2 of the Securities and Exchange Act | 5,489,000 | none | not applicable |
| | YU LIEN CHIANG | | 1,711,000 | none | not applicable |
| Actual subscription (or conversion) price | NT\$20.62 | | | | |
| difference between actual subscription (or conversion) price and reference price | It is 80.03% of the reference price, which is not less than 80% of the reference price resolved at the shareholders' meeting. | | | | |
| Impacts of private placement on shareholders' equity (for example, increase of cumulative losses) | Increasing the working capital and equity. | | | | |
| Fund utilization of private placement and project implementation progress | (1) Working capital increased : NT\$397,300 thousand (2) Unused balance : NT\$0 ; the funds have been used up in the 4nd quarter of 2023. | | | | |
| Private placement benefits | (1) Increased working capital, raised the availability of capital, and increased flexibility in utilization. (2) Improved the financial structure and enhanced the liquidity ratio and net worth of the Company. | | | | |

III. Holding or Disposal of Shares in the Company by Subsidiaries during the Most Recent Fiscal Year and during the Current Fiscal Year Up to the Date of Publication of the Annual Report: None.

IV. Other Supplementary Information: None.

- V. Any Event That Has A Significant Impact on Shareholders' Equity or Securities Prices as Prescribed by Article 36, Paragraph 3, Subparagraph 2 of the Securities and Exchange Act That Have Occurred in the Most Recent Fiscal Year and during the Current Fiscal Year Up to the Date of Publication of the Annual Report: None.

Audit Committee's Review Report

The Audit Committee approved the financial statements of the Company for the year 2023, which had been approved by the Board of Directors, and was also audited and attested by KPMG Taiwan appointed by the Board of Directors, with an audit report issued.

In addition, the Company's annual business report and loss recovery proposal prepared by the Board of Directors have been reviewed by the Audit Committee and found to be in conformity with the relevant provisions of the Company Act. The Audit Committee hereby reported in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act as above.

Please review.

Sincerely,

2024 General Shareholders' Meeting, Solid State System Co., Ltd.

Convener of the Audit Committee: Cheermore Huang

February 22, 2024

Representation Letter

The entities that are required to be included in the combined financial statements of Solid State System Co., Ltd. as of and for the year ended December 31, 2023 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements", endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Solid State System Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Solid State System Co., Ltd.

Chairman: Jeffrey Lin

Date: February 22, 20

Independent Auditors' Report

To the Board of Directors of
Solid State System Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Solid State System Co., Ltd. ("3S") and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgment, the key audit matters should be reflected in our report are as follow:

1. Valuation of inventories

Please refer to Note 4(8) "Summary of Significant Accounting Policies – Inventories" , Note 5(1) "Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty – Valuation of inventories", and Note 6(3) "Explanation of Significant Accounts – Inventories" to the consolidated financial statements.

Description of key audit matter:

The Company's main products included NAND Flash controller IC and Audio IC, wherein its inventories are measured at the lower of cost and net realizable value. Due to the rapid changes in electronic industry, the old models produced by the Company may quickly be replaced by new ones or may fail to meet the market demand resulting in a risk in which the carrying value of inventories may be higher than its net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon which might be subject to significant fluctuations. Therefore, the valuation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Inspecting the inventory aging report and analyzing the difference in the inventory aging in comparison to prior periods. Testing inventory Lower-of-cost-or-net-realizable value evaluating report and testing the accuracy of the inventory aging report. Assessing the management's assumptions on the completeness of inventory provisions. Evaluating the appropriateness of the inventory valuation, evaluating the management's calculations for inventory loss with reference to historical trends to ensure their appropriateness and considering the adequacy of the company disclosures in the accounts.

2. Impairment assessment on non-financial assets

Please refer to Note 4(12) "Summary of Significant Accounting Policies – Impairment of non-financial assets", Note 5(2) "Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty – Impairment Assessment on non-financial assets", and Notes 6(4), (5) and (6) "Explanation of Significant Accounts – Property, plant and equipment", "Explanation of Significant Accounts – Right-of-use assets" and "Explanation of Significant Accounts – Intangible assets", respectively, to the consolidated financial statements.

Description of key audit matter:

The Company has performed poorly in operation in recent years, resulting in a risk in which the impairment loss of non-financial assets and the recoverable amount of assets may become lower than the carrying value of assets. The valuation of the impairment loss of assets that are based on the cash flow in the future is subject to the management's judgment which has significant uncertainty, and the audit team needs to discuss the matter with the management to evaluate the adequacy of the valuation. Therefore, the impairment assessment on non-financial assets is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Assessing whether there are impairment indications for Solid State System Co., Ltd.'s related assets; understanding and assessing the appropriateness of the valuation model used by the management in the impairment assessment and the significant assumptions used to determine related assets' future cash flows projection, useful lives, and weighted-average cost of capital; retrospectively reviewing the accuracy of assumptions used in prior-period estimates and performing a sensitivity analysis of key assumptions and results; in addition to the above audit procedures, appointing specialists to evaluate the appropriateness of the weighted-average cost of capital used; performing an inquiry of the management and identifying any event after the balance sheet date if able to affect the results of the impairment assessment; obtaining the subsequent financial information to assess the rationality of the evaluation of impairment.

Other Matter

Solid State System Co., Ltd. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2023 and 2022, on which we have issued an unmodified opinion.

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

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

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

Those charged with governance (including the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
February 22, 2024

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

Solid State System Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

| Assets | December 31, 2023 | | December 31, 2022 | | | | | | |
|--|-------------------|------------|-------------------|------------|---|-------------------|------------|----------------|------------|
| | Amount | % | Amount | % | | | | | |
| Current assets: | | | | | Current liabilities: | | | | |
| Cash and cash equivalents (note 6(1)) | \$ 141,727 | 28 | 65,952 | 10 | Short-term borrowings (note 6(7)) | \$ 34,170 | 7 | 66,019 | 10 |
| Accounts receivable, net (note 6(2)) | 13,889 | 3 | 13,591 | 2 | Accounts payable | 1,282 | - | 1,936 | - |
| Accounts receivable from related parties, net (notes 6(2) and 7) | 12,111 | 2 | 40,643 | 6 | Accrued payroll and bonus | 13,120 | 3 | 17,122 | 3 |
| Inventories (note 6(3)) | 268,581 | 53 | 390,453 | 62 | Other accrued expenses | 14,886 | 3 | 19,614 | 3 |
| Other current assets (note 8) | 15,645 | 3 | 8,203 | 2 | Current lease liabilities (note 6(8)) | 7,354 | 1 | 10,033 | 2 |
| | 451,953 | 89 | 518,842 | 82 | Other current liabilities | 9,804 | 2 | 6,324 | 1 |
| | | | | | | 80,616 | 16 | 121,048 | 19 |
| Non-current assets: | | | | | Non-current liabilities: | | | | |
| Property, plant and equipment (note 6(4)) | 29,352 | 6 | 57,785 | 9 | Deferred tax liabilities (note 6(10)) | - | - | 1,718 | - |
| Right-of-use assets (note 6(5)) | 11,778 | 2 | 23,600 | 4 | Non-current lease liabilities (note 6(8)) | 1,593 | - | 8,747 | 2 |
| Intangible assets (note 6(6)) | 9,042 | 2 | 14,177 | 2 | Guarantee deposits received | 618 | - | 618 | - |
| Refundable deposits (note 8) | 6,810 | 1 | 6,779 | 1 | | 2,211 | - | 11,083 | 2 |
| Net defined benefit asset, non-current (note 6(9)) | - | - | 8,490 | 2 | | 82,827 | 16 | 132,131 | 21 |
| Other non-current assets | - | - | 117 | - | Total liabilities | | | | |
| | 56,982 | 11 | 110,948 | 18 | Equity (note 6(11)): | | | | |
| | | | | | Common stock | 569,659 | 112 | 746,877 | 119 |
| | | | | | Capital surplus | 76,464 | 15 | - | - |
| | | | | | Accumulated deficits | (220,015) | (43) | (249,218) | (40) |
| | | | | | Total equity | 426,108 | 84 | 497,659 | 79 |
| | | | | | Total liabilities and equity | \$ 508,935 | 100 | 629,790 | 100 |
| Total assets | \$ 508,935 | 100 | 629,790 | 100 | | | | | |

| Liabilities and Equity | December 31, 2023 | | December 31, 2022 | |
|------------------------|-------------------|---|-------------------|---|
| | Amount | % | Amount | % |

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

Solid State System Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

| | For the year ended December 31, | | | |
|---|---------------------------------|-------------|------------------|-------------|
| | 2023 | | 2022 | |
| | Amount | % | Amount | % |
| Operating revenues (notes 6(13) and 7) | \$ 275,641 | 100 | 402,605 | 100 |
| Operating costs (notes 6(3) and 12) | 260,326 | 94 | 286,176 | 71 |
| Gross profit | 15,315 | 6 | 116,429 | 29 |
| Operating expenses (notes 7 and 12): | | | | |
| Selling | 57,140 | 21 | 67,713 | 17 |
| General and administrative | 43,120 | 16 | 35,932 | 9 |
| Research and development | 123,010 | 44 | 133,920 | 33 |
| Total operating expenses | 223,270 | 81 | 237,565 | 59 |
| Net operating loss | (207,955) | (75) | (121,136) | (30) |
| Non-operating income and expenses (note 6(15)): | | | | |
| Interest income | 766 | - | 565 | - |
| Other gains and losses | (12,764) | (5) | (5,456) | (1) |
| Finance costs (note 6(8)) | (1,780) | - | (667) | - |
| Total non-operating income and expenses | (13,778) | (5) | (5,558) | (1) |
| Loss before income tax | (221,733) | (80) | (126,694) | (31) |
| Income tax (profit) expenses (note 6(10)) | (1,718) | - | 29,865 | 8 |
| Net loss for the period | (220,015) | (80) | (156,559) | (39) |
| Other comprehensive income: | | | | |
| Items that may not be reclassified subsequently to profit or loss | | | | |
| Remeasurements of defined benefit plans (note 6(9)) | - | - | 4,265 | 1 |
| Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(10)) | - | - | 853 | - |
| Total items that may not be reclassified subsequently to profit or loss | - | - | 3,412 | 1 |
| Other comprehensive income for the period (after tax) | - | - | 3,412 | 1 |
| Total comprehensive income for the period | <u>\$ (220,015)</u> | <u>(80)</u> | <u>(153,147)</u> | <u>(38)</u> |
| Earnings per share (New Taiwan Dollars) (note 6(12)) | | | | |
| Basic earnings per share | <u>\$ (4.34)</u> | | <u>(3.15)</u> | |
| Diluted earnings per share | <u>\$ (4.34)</u> | | <u>(3.15)</u> | |

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

Solid State System Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

| | Common stock | Capital surplus | Accumulated deficits | Total equity |
|---|-------------------------|----------------------------|---------------------------------|---------------------|
| Balance as of January 1, 2022 | \$ 746,877 | 176,995 | (273,066) | 650,806 |
| Net loss for the period | - | - | (156,559) | (156,559) |
| Other comprehensive income for the period | - | - | 3,412 | 3,412 |
| Total comprehensive income for the period | - | - | (153,147) | (153,147) |
| Capital surplus used to offset accumulated deficits | - | (176,995) | 176,995 | - |
| Balance as of December 31, 2022 | 746,877 | - | (249,218) | 497,659 |
| Net loss for the period | - | - | (220,015) | (220,015) |
| Other comprehensive income for the period | - | - | - | - |
| Total comprehensive income for the period | - | - | (220,015) | (220,015) |
| Issue of shares | 72,000 | 76,464 | - | 148,464 |
| Capital reduction to offset accumulated deficits | (249,218) | - | 249,218 | - |
| Balance as of December 31, 2023 | \$ 569,659 | 76,464 | (220,015) | 426,108 |

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

Solid State System Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

| | For the years ended December 31, | |
|--|---|------------------|
| | 2023 | 2022 |
| Cash flows from operating activities: | | |
| Loss before income tax | \$ (221,733) | (126,694) |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation | 32,592 | 36,580 |
| Amortization | 11,050 | 13,072 |
| Expected credit loss (gain) | 4 | (38) |
| Interest expense | 1,780 | 667 |
| Interest income | (766) | (565) |
| Gain on disposal of property, plant and equipment | (285) | (1,680) |
| Impairment loss on non-financial assets | 14,658 | 12,819 |
| Provision for inventory devaluation loss | 56,101 | 30,341 |
| Others | 735 | 20 |
| Total adjustments to reconcile profit (loss) | 115,869 | 91,216 |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Accounts receivable | (302) | 8,090 |
| Accounts receivable from related parties | 28,532 | 18,131 |
| Inventories | 65,771 | (85,946) |
| Other operating assets | 1,247 | 1,300 |
| Total changes in operating assets | 95,248 | (58,425) |
| Changes in operating liabilities: | | |
| Accounts payable | (654) | (23,864) |
| Other operating liabilities | (5,553) | (29,301) |
| Total changes in operating liabilities | (6,207) | (53,165) |
| Total changes in operating assets and liabilities | 89,041 | (111,590) |
| Total adjustments | 204,910 | (20,374) |
| Cash flows used in operations | (16,823) | (147,068) |
| Interest received | 680 | 522 |
| Interest paid | (1,791) | (594) |
| Income taxes paid | (28) | (2) |
| Income taxes refund | 2 | - |
| Net cash flows used in operating activities | (17,960) | (147,142) |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (6,194) | (9,435) |
| Proceeds from disposal of property, plant and equipment | 285 | 2,124 |
| Decrease (increase) in refundable deposits | (31) | 316 |
| Acquisition of intangible assets | (5,915) | (6,962) |
| Net cash flows used in investing activities | (11,855) | (13,957) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 184,605 | 141,019 |
| Repayments of borrowings | (216,454) | (75,000) |
| Payment of lease liabilities | (11,025) | (10,739) |
| Proceeds from issuing shares | 148,464 | - |
| Net cash flows from financing activities | 105,590 | 55,280 |
| Net increase (decrease) in cash and cash equivalents for the period | 75,775 | (105,819) |
| Cash and cash equivalents at beginning of period | 65,952 | 171,771 |
| Cash and cash equivalents at end of period | \$ 141,727 | 65,952 |

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

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars,
Except for Earnings Per Share Information and Unless Otherwise Specified)

1. Company History

Solid State System Co., Ltd. (“3S”) was incorporated on November 26, 1998, as a company limited by shares and registered under the Ministry of Economic Affairs of the Republic of China (“R.O.C.”). The address of 3S’s registered office is 5F-1 No. 22 Tai Yuen Street, Tai Yuen Hi-Tech Industrial Park, Zhubei City, Hsinchu 302, Taiwan, R. O. C. 3S’s common stocks have been publicly listed on Taipei Exchange since December 24, 2007.

The main activities of 3S and its subsidiaries (hereinafter referred to as “the Company”) are the design, research, development, manufacture and sale of integrated circuits (ICs).

2. Approval Date and Procedures of the Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors on February 22, 2024.

3. New Standards, Amendments and Interpretations Adopted

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

The Company has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2023:

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

The Company has initially adopted the following new amendment, which do not have a significant impact on its consolidated financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform – Pillar Two Model Rules”

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

The Company assesses that the adoption of the (following) new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
 - Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”
- (3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The Company does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS 21 “Lack of Exchangeability”

4. Summary of Material Accounting Policies

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

(1) Statement of compliance

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

(2) Basis of preparation

A. Basis of measurement

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

B. Functional and presentation currency

The functional currency of each consolidated entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars (“TWD”), which is the Company’s functional currency. All financial information presented in TWD has been rounded to the nearest thousand.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise 3S and the entities controlled by 3S (its subsidiaries). 3S controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The financial statements of subsidiaries have been properly adjusted to bring its accounting policies in line with the accounting policies used by the Company.

B. List of subsidiaries in the consolidated financial statements

| Name of investor | Subsidiary | Main activities | Percentage of ownership (%) | |
|------------------|-------------------------------------|---|-----------------------------|-------------------|
| | | | December 31, 2023 | December 31, 2022 |
| 3S | ViCHIP Corporation Limited (ViCHIP) | Operating electronic components manufacturing, wholesaling, sales and product design business | - % | 100% |

Note: 3S liquidated its subsidiary, ViCHIP, on November 3, 2022. All related statutory registration procedures had already been completed on October 24, 2023.

C. List of subsidiaries which are not included in the consolidated financial statements: None.

(4) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period (hereinafter referred to as the reporting date), monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transactions.

Exchange differences are generally recognized in profit or loss except for the differences of FVOCI-equity instrument, which are recognized in other comprehensive income.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

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

The Company classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. It holds the asset primarily for the purpose of trading;
- C. It expects to realize the asset within twelve months after the reporting period; or
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

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

(6) Cash and cash equivalents

Cash comprises cash on hand, petty cash and demand deposits. Cash equivalents are 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.

The time deposits, which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(7) Financial instruments

Accounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is an accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Accounts receivables without a significant financing component is initially measured at the transaction price.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

A. Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost and FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(b) Financial assets at FVTPL

All financial assets not classified as amortized cost is measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(c) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, receivables, other receivables, refundable deposits and other financial assets) and contract assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

debt securities that are determined to have low credit risk at the reporting date ; and

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

occurring

other debt securities and bank balances for which credit risk (i.e. the risk of default over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12-month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 180 days past due and the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. The difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. the Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

(d) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

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

(b) Equity instruments

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

(c) Financial liabilities

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

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

(d) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

(e) Offsetting of financial assets and liabilities

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

C. Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories include expenditure incurred in acquiring the inventories, conversion costs, and other costs (weighted-average method) incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs incurred in acquiring the available-for-sale inventories and selling expenses.

(9) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

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

B. Subsequent cost

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

C. Depreciation

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

Land is not depreciated.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- (a) Building: 2 to 10 years
- (b) Office and other equipment: 3 to 10 years

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

(10) Leases

A. Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

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

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate these non-lease components, and account for the lease and non-lease components as a single lease component.

B. As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the assessment regarding the purchase option; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there are any lease modifications.

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease,

Solid State System Co., Ltd. and Subsidiaries
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and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company has elected not to recognize the right-of-use assets and lease liabilities for its parking space and other, which qualifies as short-term assets leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For sale and leaseback transactions, the Company applies the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of the asset. If the transfer of an asset satisfies the requirement of IFRS 15 to be accounted for as a sale of the asset, the Company derecognizes the transferred asset, then measures the right of use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Accordingly, the Company recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer lessor. For leaseback transaction, the Company applies the lessee accounting policy. If the transfer of an asset does not satisfy the requirement of IFRS 15 to be accounted for as a sale of the asset, the Company continues to recognize the transferred asset and recognizes the financial liability equal to the transfer proceeds.

(11) Intangible assets

A. Research and development

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future

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economic benefits embodied in the specific asset to which it relates.

C. Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- (a) Software: 3 to 6 years
- (b) Patent and technology fee: 3 to 10 years

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

(12) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(13) Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense.

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

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(14) Revenue from contract with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

A. Sale of goods

The Company's main products included NAND Flash controller IC and Audio IC. The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

B. Rendering of services

Some of the manufacturing and sales contracts of the Company include pre-production activities such as researching, developing, designing and testing of new products. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the reporting date as a proportion of the total services to be provided. The proportion of services provided is determined based on the actual labor hours spent relative to the total expected labor hours of the transaction.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset (recorded in other current assets) is recognized. If the payments exceed the services rendered, a contract liability is recognized.

If the contract includes an hourly fee, revenue is recognized in the amount to

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which the Company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

C. Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(15) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

B. Defined benefit plans

3S's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for 3S, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. 3S determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the defined benefit asset. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is

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recognized immediately in profit or loss. 3S recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if 3S has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(16) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities at the reporting date and their respective tax bases.

Deferred tax assets are recognized for the carry forward of unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each financial reporting date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- A. The entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - (a) Levied by the same taxing authority; or
 - (b) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

(17) Earnings per share

The Company discloses 3S's basic and diluted earnings per share attributable to common stockholders of 3S. The calculation of basic earnings per share is based on the profit attributable to the common stockholders of 3S divided by the weighted-average number of common stock

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outstanding. The calculation of diluted earnings per share is based on the profit attributable to common stockholders of 3S, divided by the weighted-average number of common stock outstanding after adjustment for the effects of all dilutive potential common stock.

(18) Operating segment information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

5. Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations requires management to make judgments, estimations, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in accounting estimations during the period in which the estimates are revised and in any future periods affected.

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The following assumptions and estimated with uncertainties have a significant risk of causing significant adjustments to the carrying amount of assets and liabilities in the next financial year. The relevant information is as follows:

(1) Valuation of inventories

Due to the rapid technological changes, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the reporting date, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of future demand within a specific time horizon which might subject to significant fluctuations. Please refer to note 6(3) for further description of the valuation of inventories.

(2) Impairment assessment on non-financial assets

In the process of evaluating the potential assets, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years. Please refer to notes 6(4), (5) and (6) for further description of the impairment assessment on non-financial assets.

6. Explanation of Significant Accounts

(1) Cash and cash equivalents

| | December 31, 2023 | December 31, 2022 |
|-------------------------------|------------------------------|------------------------------|
| Cash on hand and petty cash | \$ 119 | 53 |
| Checking and savings accounts | 29,108 | 29,899 |
| Time deposits | 112,500 | 36,000 |
| | <u>\$ 141,727</u> | <u>65,952</u> |

Please refer to note 6(16) for the disclosure of currency risk of the financial assets and liabilities of the Company.

(2) Accounts receivable (including receivables from related parties)

| | December 31, 2023 | December 31, 2022 | January 1, 2022 |
|--|------------------------------|------------------------------|------------------------|
| Accounts receivable (including receivables from related parties) | \$ 26,020 | 54,250 | 80,471 |
| Less: loss allowance | (20) | (16) | (54) |
| | <u>\$ 26,000</u> | <u>54,234</u> | <u>80,417</u> |
| Accounts receivable, net | <u>\$ 13,889</u> | <u>13,591</u> | <u>21,643</u> |
| Accounts receivable from related parties, net | <u>\$ 12,111</u> | <u>40,643</u> | <u>58,774</u> |

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The Company applies the simplified approach to provide for its expected credit losses (ECL), which permit the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The expected loss allowance for accounts receivable (including receivables from related parties) was determined as follows:

| | December 31, 2023 | | |
|--------------------|------------------------------|-----------------------------------|--------------------------------|
| | Gross carrying amount | Weighted-average loss rate | Expected loss allowance |
| Not past due | \$ 25,438 | 0.067% | 17 |
| Past due 1~89 days | 582 | 0.515% | 3 |
| Total | \$ 26,020 | | 20 |

| | December 31, 2022 | | |
|--------------------|------------------------------|-----------------------------------|--------------------------------|
| | Gross carrying amount | Weighted-average loss rate | Expected loss allowance |
| Not past due | \$ 53,866 | 0.030% | 16 |
| Past due 1~89 days | 384 | - % | - |
| Total | \$ 54,250 | | 16 |

The movements in the allowance for accounts receivable (including receivables from related parties) were as follows:

| | For the years ended December 31, | |
|---------------------------------------|---|-------------|
| | 2023 | 2022 |
| Beginning balance | \$ 16 | 54 |
| Impairment loss (reversed) recognized | 4 | (38) |
| Ending balance | \$ 20 | 16 |

The Company's net accounts receivable (including receivables from related parties) mentioned above were not pledged as collateral.

(3) Inventories

| | December 31, 2023 | December 31, 2022 |
|-----------------|--------------------------|--------------------------|
| Raw materials | \$ 26,153 | 21,248 |
| Work in process | 100,531 | 161,552 |
| Finished goods | 141,897 | 207,653 |
| | \$ 268,581 | 390,453 |

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The details of operating costs were as follows:

| | For the years ended December 31, | |
|--|---|----------------|
| | 2023 | 2022 |
| Cost of goods sold | \$ 193,264 | 249,830 |
| Technical service cost | 10,825 | 492 |
| Provision for inventory devaluation loss | 56,101 | 30,341 |
| Unallocated production overheads | 924 | 6,334 |
| Revenue from sale of scrap | (788) | (817) |
| Physical inventory gain | - | (4) |
| Total | \$ 260,326 | 286,176 |

The Company's inventories mentioned above were not pledged as collateral.

(4) Property, plant and equipment

| | Machinery and equipment | Office and other equipment | Total |
|---|------------------------------------|---|----------------|
| Cost: | | | |
| Balance as of January 1, 2023 | \$ 117,202 | 45,291 | 162,493 |
| Additions | 1,607 | 4,903 | 6,510 |
| Disposal and write-off | (7,178) | (3,775) | (10,953) |
| Reclassification | (428) | (279) | (707) |
| Balance as of December 31, 2023 | \$ 111,203 | 46,140 | 157,343 |
| Balance as of January 1, 2022 | \$ 131,245 | 39,819 | 171,064 |
| Additions | 4,999 | 5,472 | 10,471 |
| Disposal and write-off | (19,042) | - | (19,042) |
| Balance as of December 31, 2022 | \$ 117,202 | 45,291 | 162,493 |
| Accumulated depreciation and impairment loss: | | | |
| Balance as of January 1, 2023 | \$ 76,920 | 27,788 | 104,708 |
| Depreciation for the period | 11,008 | 8,570 | 19,578 |
| Impairment loss | 13,744 | 914 | 14,658 |
| Disposal and write-off | (7,178) | (3,775) | (10,953) |
| Balance as of December 31, 2023 | \$ 94,494 | 33,497 | 127,991 |
| Balance as of January 1, 2022 | \$ 65,600 | 21,072 | 86,672 |
| Depreciation for the period | 17,099 | 6,716 | 23,815 |
| Impairment loss | 12,819 | - | 12,819 |
| Disposal and write-off | (18,598) | - | (18,598) |
| Balance as of December 31, 2022 | \$ 76,920 | 27,788 | 104,708 |

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| | Machinery and equipment | Office and other equipment | Total |
|---------------------------------|------------------------------------|---|---------------|
| Book value: | | | |
| Balance as of December 31, 2023 | <u>\$ 16,709</u> | <u>12,643</u> | <u>29,352</u> |
| Balance as of January 1, 2022 | <u>\$ 65,645</u> | <u>18,747</u> | <u>84,392</u> |
| Balance as of December 31, 2022 | <u>\$ 40,282</u> | <u>17,503</u> | <u>57,785</u> |

A. Impairment loss

For the years ended December 31, 2023 and 2022, the Company assessed the impairment loss on equipment and reticle masks due to the changes in production technology to be \$14,658 and \$12,819, recognized as “Other gains and losses” in the consolidated statement of comprehensive income.

B. Collateral

The Company’s property, plant and equipment mentioned above were not pledged as collateral.

(5) Right-of-use assets

| | Buildings |
|---------------------------------|------------------|
| Cost: | |
| Balance as of January 1, 2023 | \$ 40,326 |
| Additions | 1,192 |
| Decreases | <u>(971)</u> |
| Balance as of December 31, 2023 | <u>\$ 40,547</u> |
| Balance as of January 1, 2022 | \$ 39,754 |
| Additions | 14,518 |
| Decreases | <u>(13,946)</u> |
| Balance as of December 31, 2022 | <u>\$ 40,326</u> |
| Accumulated Depreciation: | |
| Balance as of January 1, 2023 | \$ 16,726 |
| Depreciation for the period | 13,014 |
| Decreases | <u>(971)</u> |
| Balance as of December 31, 2023 | <u>\$ 28,769</u> |
| Balance as of January 1, 2022 | \$ 17,907 |
| Depreciation for the period | 12,765 |
| Decreases | <u>(13,946)</u> |
| Balance as of December 31, 2022 | <u>\$ 16,726</u> |

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| | <u>Buildings</u> |
|---------------------------------|------------------|
| Book value: | |
| Balance as of December 31, 2023 | <u>\$ 11,778</u> |
| Balance as of January 1, 2022 | <u>\$ 21,847</u> |
| Balance as of December 31, 2022 | <u>\$ 23,600</u> |

Assets of the Company that have indications of impairment on the reporting date are tested for impairment on the basis of individual assets or their CGUs. According to the test for impairment for 2023 and 2022, the recoverable amount for an asset or a CGU is the higher than its book value. Therefore, the Company did not recognize any impairment loss on right-of-use assets.

(6) Intangible assets

| | <u>Computer software</u> | <u>Patent and technology license fee</u> | <u>Total</u> |
|---------------------------------|------------------------------|--|---------------|
| Cost: | | | |
| Balance as of January 1, 2023 | \$ 27,664 | 24,591 | 52,255 |
| Additions | 5,915 | - | 5,915 |
| Write-off | (22,448) | (3,695) | (26,143) |
| Balance as of December 31, 2023 | <u>\$ 11,131</u> | <u>20,896</u> | <u>32,027</u> |
| Balance as of January 1, 2022 | \$ 24,973 | 34,711 | 59,684 |
| Additions | 6,962 | - | 6,962 |
| Write-off | (4,271) | (10,120) | (14,391) |
| Balance as of December 31, 2022 | <u>\$ 27,664</u> | <u>24,591</u> | <u>52,255</u> |
| Accumulated amortization: | | | |
| Balance as of January 1, 2023 | \$ 24,267 | 13,811 | 38,078 |
| Amortization for the period | 7,347 | 3,703 | 11,050 |
| Write-off | (22,448) | (3,695) | (26,143) |
| Balance as of December 31, 2023 | <u>\$ 9,166</u> | <u>13,819</u> | <u>22,985</u> |
| Balance as of January 1, 2022 | \$ 19,835 | 19,562 | 39,397 |
| Amortization for the period | 8,703 | 4,369 | 13,072 |
| Write-off | (4,271) | (10,120) | (14,391) |
| Balance as of December 31, 2022 | <u>\$ 24,267</u> | <u>13,811</u> | <u>38,078</u> |
| Book value: | | | |
| Balance as of December 31, 2023 | <u>\$ 1,965</u> | <u>7,077</u> | <u>9,042</u> |
| Balance as of January 1, 2022 | <u>\$ 5,138</u> | <u>15,149</u> | <u>20,287</u> |
| Balance as of December 31, 2022 | <u>\$ 3,397</u> | <u>10,780</u> | <u>14,177</u> |

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Assets of the Company that have indications of impairment on the reporting date are tested for impairment on the basis of individual assets or their CGUs. According to the test for impairment for 2023 and 2022, the recoverable amount for an asset or a CGU is the higher than its book value. Therefore, the Company did not recognize any impairment loss on intangible assets.

The Company's intangible assets mentioned above were not pledged as collateral.

(7) Short-term borrowings

| | December 31, 2023 | December 31, 2022 |
|-------------------------|------------------------------|------------------------------|
| Unsecured bank loans | <u>\$ 34,170</u> | <u>66,019</u> |
| Unused credit lines | <u>26,834</u> | <u>43,981</u> |
| Range of interest rates | <u>2.21%~2.95%</u> | <u>1.95%~2.70%</u> |

(8) Lease liabilities

The carry amounts of lease liabilities were as follows:

| | December 31, 2023 | December 31, 2022 |
|-------------|------------------------------|------------------------------|
| Current | <u>\$ 7,354</u> | <u>10,033</u> |
| Non-current | <u>\$ 1,593</u> | <u>8,747</u> |

For the maturity analysis, please refer to note 6(16) of the financial instruments.

The amounts recognized in profit or loss were as follows:

| | For the years ended December 31, 2023 | 2022 |
|-------------------------------|--|-------------|
| Interest on lease liabilities | <u>\$ 228</u> | <u>244</u> |

The amounts recognized in the statement of cash flows by the Company were as follows:

| | For the years ended December 31, 2023 | 2022 |
|-------------------------------|--|---------------|
| Total cash outflow for leases | <u>\$ 11,253</u> | <u>10,983</u> |

Information of lease

The Company leases buildings, parking space and store house for its office space, staff parking area and store the machine, with the leases terms that typically run for a period of 1 to 5 years.

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(9) Employee benefit

A. Defined benefit plans

The present value of the defined benefit obligation and the fair value adjustments of the plan assets of 3S were as follows:

| | December 31, 2023 | December 31, 2022 |
|----------------------------|------------------------------|------------------------------|
| Fair value of plan assets | \$ - | 8,490 |
| Net defined benefit assets | <u>\$ -</u> | <u>8,490</u> |

3S makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

(a) Composition of plan assets

3S allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds). Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

3S's Bank of Taiwan labor pension reserve account balance amounted to \$0 as of December 31, 2023. For information on the utilization of the labor pension fund assets including the asset allocation and yield rate of the fund, please refer to the website of the Bureau of Labor Funds.

In accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, 3S applied for a clearance on the remaining years of service of its employees to the competent authority, who approved its application in November and December of the same year. As of December 31, 2023, there were no employees belonging to the old labor pension plan.

The retirement reserve check for the settlement account received by 3S in May 2023 resulted in the reduction of its defined benefit retirement obligation by \$8,490 thousands, with its income distribution totaling \$198 thousands, recognized as "other income" in its consolidated statements of comprehensive income.

(b) Movements in present value of the defined benefit obligation

The movements in present value of the defined benefit obligation of 3S for the years ended December 31, 2023 and 2022 were as follows:

| | For the years ended December 31, 2023 | 2022 |
|--|--|-------------|
| Defined benefit obligation as of January 1 | \$ - | (11,447) |
| Current service costs and interest | - | (54) |

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| | | |
|---|-------------|----------|
| Remeasurements of the net defined benefit assets | | |
| - Actuarial loss (gain) arising from experience adjustments | - | 2,975 |
| Benefit paid | - | 8,526 |
| Defined benefit obligation as of December 31 | <u>\$ -</u> | <u>-</u> |

(c) Movements in fair value of the defined benefit plan assets

The movements in fair value of the defined benefit plan assets of 3S for the years ended December 31, 2023 and 2022 were as follows:

| | For the years ended December 31, | |
|--|---|--------------|
| | 2023 | 2022 |
| Fair value of plan assets as of January 1 | \$ 8,490 | 15,652 |
| Interest income | - | 73 |
| Remeasurements of the net defined benefit assets | | |
| - Return on plan assets (excluding current interest) | - | 1,291 |
| Benefit paid | - | (8,526) |
| Bank of Taiwan labor pension reserve account | (8,490) | - |
| Fair value of plan assets as of December 31 | <u>\$ -</u> | <u>8,490</u> |

(d) Expenses (benefit) recognized in profit or loss

3S's expenses recognized in profit or losses for the years ended December 31, 2023 and 2022, were as follows:

| | For the years end December 31, | |
|--|---------------------------------------|-------------|
| | 2023 | 2022 |
| Net interest on the net defined benefit assets | <u>\$ -</u> | <u>(19)</u> |

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- (e) Remeasurements of the net defined benefit assets recognized in other comprehensive income

3S's remeasurements of the net defined benefit assets recognized as accumulated in other comprehensive income for the years ended December 31, 2023 and 2022 were as follows:

| | For the years end December 31, | |
|-------------------------------------|---------------------------------------|----------------------|
| | 2023 | 2022 |
| Cumulative amount as of January 1 | \$ 10,041 | 5,776 |
| Recognized during the period | - | 4,265 |
| Clearance account | (10,041) | - |
| Cumulative amount as of December 31 | <u><u>\$ -</u></u> | <u><u>10,041</u></u> |

- (f) Actuarial assumptions

The following are 3S's significant actuarial assumptions of the present value of the defined benefit obligation as of the reporting date:

| | December 31, | December 31, |
|-------------------------|---------------------|---------------------|
| | 2023 | 2022 |
| Discount rate | - % | 1.4019% |
| Future salary increases | - % | 2.0000% |

3S has been approved by the Bureau of Labor Funds to temporarily cease its contribution to the labor fund starting October 2014 . The pension account was settled in May 2023.

B. Defined contribution plans

3S allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance, Ministry of Labor (hereinafter referred to as the Bureau of Labor Insurance) in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, 3S allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

3S's pension costs under the defined contribution method were \$6,543 and \$7,036 for the years ended December 31, 2023 and 2022, respectively. Payment was made to the Bureau of Labor Insurance.

(10) Income tax

A. The amount income tax (benefit) expense were as follows:

The amount income tax (benefit) expense for the years ended December 31, 2023 and 2022 were as follows:

| | For the years ended December 31, | |
|----------------------|---|-------------|
| | 2023 | 2022 |
| Deferred tax expense | | |

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| | | |
|---|-------------------|---------------|
| Origination and reversal of temporary differences | \$ (1,718) | 29,865 |
| Income tax (benefit) expense | <u>\$ (1,718)</u> | <u>29,865</u> |

The amount of tax expense recognized in other comprehensive income for the years ended December 31, 2023 and 2022 was as follows:

| | For the years ended December 31, | |
|---|---|-------------|
| | 2023 | 2022 |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Remeasurements of the defined benefit plans | <u>\$ -</u> | <u>853</u> |

The reconciliation of income tax (benefit) expense and loss before tax for the years ended December 31, 2023 and 2022, is as follows:

| | For the years ended December 31, | |
|--|---|------------------|
| | 2023 | 2022 |
| Loss before tax | <u>\$ (221,733)</u> | <u>(126,694)</u> |
| Income tax using the 3S's domestic tax rate | (44,347) | (25,339) |
| Recognized domestic investment losses under the equity methods | - | 15 |
| Tax-exempt income | - | (1) |
| Fictional income in accordance with tax laws | 1,698 | - |
| Expenses that are not deductible for tax purposes | 6 | - |
| Changes in unrecognized tax losses | 37,852 | 29,560 |
| Change in unrecognized deductible temporary differences | <u>3,073</u> | <u>25,630</u> |
| | <u>\$ (1,718)</u> | <u>29,865</u> |

Solid State System Co., Ltd. and Subsidiaries
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B. Deferred income tax assets and liabilities

- (a) Deferred tax assets have not been recognized in respect of the following items:

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|------------------------------|
| Tax effect of deductible Temporary Differences | \$ 28,766 | 25,693 |
| Tax losses | 213,187 | 185,816 |
| | <u>\$ 241,953</u> | <u>211,509</u> |

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

The deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

As of December 31, 2023, the unused operating loss carry forwards were as described below:

| Year loss occurred | Unused operating loss Carry forwards | Expiration year |
|---------------------------|---|------------------------|
| 2014 (assessed) | \$ 125,006 | 2024 |
| 2015 (assessed) | 195,249 | 2025 |
| 2016 (assessed) | 37,349 | 2026 |
| 2017 (assessed) | 70,214 | 2027 |
| 2018 (assessed) | 22,429 | 2028 |
| 2019 (assessed) | 110,711 | 2029 |
| 2020 (assessed) | 138,247 | 2030 |
| 2021 (assessed) | 20,024 | 2031 |
| 2022 (filed) | 148,864 | 2032 |
| 2023 (estimated) | 197,844 | 2033 |
| | <u>\$ 1,065,937</u> | |

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(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2023 and 2022 were as follows:

Deferred tax assets:

| | January 1, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2023 |
|--|--------------------|--|--|----------------------|--|--|----------------------|
| Provision for inventory devaluation loss | \$ 29,823 | (29,823) | - | - | - | - | - |
| Others | 37 | (37) | - | - | - | - | - |
| | <u>\$ 29,860</u> | <u>(29,860)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Deferred tax liabilities:

| | January 1, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2023 |
|-----------------------|--------------------|--|--|----------------------|--|--|----------------------|
| Defined benefit plans | \$ 861 | 4 | 853 | 1,718 | (1,718) | - | - |

C. 3S's income tax returns had been assessed by the tax authorities through 2021.

(11) Capital and other equity interest

As of December 31, 2023 and 2022, the authorized capital are both \$1,200,000 according to the 3S's articles of Incorporation (Among the authorized capital, the \$100,000 thousand is used for the issuance of employee stock option certificates). The paid-in capital amounted to \$569,659 and \$746,877 thousand, respectively, and with par value of \$10 per share.

3S's outstanding capital reconciliation (expressed in thousands of stocks):

| | Common stocks | |
|--|--|---------------|
| | For the year ended December 31, | |
| | 2023 | 2022 |
| Number of outstanding capitals on January 1 | 74,688 | 74,688 |
| Add: capital increase | 7,200 | - |
| Deduct: capital reduction to offset accumulated deficits | (24,922) | - |
| Number of outstanding capitals on December 31 | <u>56,966</u> | <u>74,688</u> |

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A. Common stock

(a) First private placement of common stock in 2008

In order to appeal to strategic investors for the purpose of strengthening 3S's stockholder structure and improving competitiveness, on August 8, 2008, based on the resolution of a special stockholders' meeting, the Board of Directors approved the proposal to raise \$100,205 through private placement of 5,726 thousand common stock at a premium price of \$17.5 dollars per share. The premium amounted to \$42,945 and was recognized as capital surplus—additional paid-in capital. The effective date of the capital increase was August 25, 2008, and the required registration process was completed on September 8, 2008.

(b) First private placement of common stock in 2013

In order to appeal to strategic investors for the purpose of strengthening 3S's stockholder structure and improving competitiveness, on June 4, 2013, based on the resolution of a special stockholders' meeting, the Board of Directors approved the proposal, to raise \$144,000 through private placement of 7,500 thousand common stock at a premium price of \$19.2 dollars per share on November 13, 2013. The premium amounted to \$69,000 and was recognized as capital surplus—additional paid-in capital. The effective date of the capital increase was November 27, 2013, and the required registration process was completed on December 25, 2013.

Except for the restriction on trading as required by the Securities and Exchange Act and the requirement for a public offering could only be made three years after the issuance date whenever 3S meets the profitability requirement announced by the Taipei Exchange in Taiwan, the rights and obligations of participants in this private placement are identical to those of holders of current outstanding common stock. As of the report date, the abovementioned restriction had not yet been lifted.

(c) First private placement of common stock in 2023

In order to appeal to strategic investors, on May 16, 2023, based on the resolution of a special stockholders' meeting, the Board of Directors approved the proposal, to raise \$148,464 through private placement of 7,200 thousand common stock at a premium price of \$20.62 dollars per share on November 2, 2023. The premium amounted to \$76,464 and was recognized as capital surplus—additional paid in capital. The effective date of the capital increase was November 17, 2023, and the required registration process was completed on December 21, 2023. Except for the restriction on trading as required by the Securities and Exchange Act and the requirement for a public offering could only be made three years after the issuance date whenever the Company meets the profitability requirement announced by the Taipei Exchange in Taiwan, the rights and obligations of participants in this private placement are identical to those of holders of current outstanding common stock.

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In order to improve the financial structure of the Company, a resolution was passed during the stockholders' meeting held on May 16, 2023 for the capital reduction of \$249,218 to compensate the deficit, the capital reduction ratio is 33%. The remaining balance after the reduction amounted to \$497,659. The capital reduction has been approved by the FSC on the June 14, 2023, and the date of capital reduction set on June 15, 2023. The relevant statutory registration procedures had already been completed on July 12, 2023.

B. Capital surplus

The Company's capital surplus was as follows:

| | December 31, 2023 | December 31, 2022 |
|------------------|------------------------------|------------------------------|
| Capital increase | \$ 76,464 | - |

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

C. Retained earnings

(a) Legal reserve

When a company incurs no loss, it may distribute the amount of the legal reserve that exceeds 25% of issued common stock either by capitalizing its legal reserve and distributing the new shares as stock dividend to its original stockholders in proportion to the number of shares held by each of them or by distributing a cash dividend.

(b) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal the current period total net reduction of other stockholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other stockholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other stockholders' equity shall qualify for additional distributions.

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(c) Distribution of earnings/deficit compensation

3S's articles of incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the remaining balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Special reserve may be appropriated for operations or to meet regulations. The remaining earnings, if any, may be appropriated according to the proposal presented in the annual stockholders' meeting by the Board of Directors.

In consideration of financial planning, distribution of profits shall be appropriated by means of stock dividends or cash dividends, or both. The cash dividends should not be lower than 10% of the total dividends.

A resolution was approved during the stockholders' meeting held on May 16, 2023 for 3S to use its the capital surplus to offset its accumulated deficits in 2022 at the amount of \$249,218. A resolution was approved during the stockholder' meeting held on June 21, 2022 for 3S to use its the capital surplus to offset its accumulated deficits in 2021 at the amount of \$176,995. The deficit compensation mentioned above were consistent with the decisions made by Board of Directors. The information will be available on the Market Observation Post System website.

The deficit compensation for 2023 was presented for a resolution in the Board of Directors' meeting on February 22, 2024, which are then to be approved in annual stockholders' meeting. The information will be available on the Market Observation Post System website.

(12) Earnings per share

| | For the years ended December 31, | |
|--|---|------------------|
| | 2023 | 2022 |
| Basic and diluted earnings per share: | | |
| Net loss attributable to 3S's stockholders | <u>\$ (220,015)</u> | <u>(156,559)</u> |
| Weighted average common stocks outstanding (thousand shares) | <u>50,654</u> | <u>74,688</u> |
| Basic and diluted EPS (TWD) | <u>\$ (4.34)</u> | <u>(2.10)</u> |
| Basic and diluted EPS — retroactive adjustment (TWD) | | <u>\$ (3.15)</u> |

The deficit compensation has been retroactively adjusted when calculating the EPS, with the date of capital reduction set on June 15, 2023. The changes in basic and diluted EPS due to retroactive adjustment for 2022 were as follow:

| | For the year ended December 31, | |
|--|--|-------------------------------------|
| | 2022 | |
| | Before retroactive adjustment | After retroactive adjustment |
| Net loss attributable to 3S's stockholders | <u>\$ (156,559)</u> | <u>(156,559)</u> |
| Weighted average common Stocks outstanding (thousand shares) | <u>74,688</u> | <u>49,766</u> |

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Basic and diluted EPS (TWD) \$ (2.10) (3.15)

Since 3S incurred a net loss for the years ended December 31, 2023 and 2022, there were no dilutive potential ordinary shares for the period.

(13) Revenue from contracts with customers

| | For the years ended December 31, | |
|------------------------------|---|-----------------------|
| | 2023 | 2022 |
| Primary geographical markets | | |
| America | \$ 126,231 | 211,610 |
| China | 80,185 | 56,658 |
| Taiwan | 48,758 | 40,714 |
| North-east Asia | 20,467 | 88,071 |
| Others | - | 5,552 |
| | <u>\$ 275,641</u> | <u>402,605</u> |
| Major products | | |
| Revenue from IC | \$ 238,101 | 386,979 |
| Technical Service Income | 37,540 | 15,626 |
| | <u>\$ 275,641</u> | <u>402,605</u> |

(14) Compensation of employees and directors

According to 3S's articles of incorporation, 3S's annual net income before tax, after offsetting any accumulated deficit, no less than 10% of the remainder shall be appropriated as employee compensation, and no more than 2% of the remainder shall be appropriated as compensation to directors. The compensation of employee in the form of stock bonuses may also apply to employees of the affiliated companies. The Board of Directors is authorized to set out related terms and conditions. The remuneration to independent directors of 3S are distributed on a monthly fixed term and excluded from the above-mentioned distribution.

Because 3S incurred a net loss for the years ended December 31, 2023 and 2022, compensation to employees and directors were not accrued.

If there are any subsequent adjustments to the actual compensation amounts after the annual stockholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

For related information about the 3S's compensation to employees and directors will be available at the Market Observation Post System website.

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(15) Non-operating income and expenses

A. Interest income

| | For the years ended December 31, | |
|------------------------------------|---|-------------|
| | 2023 | 2022 |
| Interest income from bank deposits | \$ 726 | 529 |
| Other interest income | 40 | 36 |
| | \$ 766 | 565 |

B. Other gains and losses

| | For the years ended December 31, | |
|--|---|----------------|
| | 2023 | 2022 |
| Gain on disposals of property, plant and equipment | \$ 285 | 1,680 |
| Recognition of impairment losses on non-financial assets | (14,658) | (12,819) |
| Foreign exchange gains (losses), net | (269) | 4,278 |
| Others | 1,878 | 1,405 |
| | \$ (12,764) | (5,456) |

C. Finance costs

| | For the years ended December 31, | |
|--|---|-------------|
| | 2023 | 2022 |
| Interest expense — short-term borrowings and other | \$ 1,552 | 423 |
| Interest expense — lease liabilities | 228 | 244 |
| | \$ 1,780 | 667 |

(16) Financial instruments

A. Credit risk

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

The Company's potential credit risk is derived primarily from cash and cash equivalents and receivable (including accounts receivable and receivables from related parties). The Company maintains its cash and cash equivalents in various creditworthy financial institutions. The Company monitors its exposure with these financial institutions; therefore, the Company considers that there is no concentration of credit risk in regard to cash and cash equivalents.

The Company's sales to individual clients constituting over 10% of total sales revenue for the years ended December 31, 2023 and 2022, were 59% and 71%, respectively, of the total sales revenues. To reduce the concentration of credit risk, the Company continuously evaluates the credit status of its customers and the

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collectability of accounts receivable, and provides for its ECL. It is management's belief that such concentration of credit risk is under control. For the details of aging and ECL, please refer to note 6(2).

No impairment loss was recognized for the years ended December 31, 2023 and 2022. All of these financial assets are considered to have low risk and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(7).

B. Liquidity risk

The following are the contractual maturities of financial liabilities (including estimated interest expense):

| | Carrying amount | Contractual cash flows | Within 1 years | 1~5 years |
|---|--------------------------|---------------------------|-----------------------|---------------------|
| December 31, 2023 | | | | |
| Non-derivative financial liabilities | | | | |
| Short-terms borrowing | \$ 34,170 | 34,424 | 34,424 | - |
| Accounts payable | 1,282 | 1,282 | 1,282 | - |
| Accrued payroll and bonus | 13,120 | 13,120 | 13,120 | - |
| Other accrued expenses | 14,886 | 14,886 | 14,886 | - |
| Lease liabilities (included in current and non-current) | 8,947 | 9,014 | 7,416 | 1,598 |
| Guarantee deposits received | 618 | 618 | - | 618 |
| | <u>\$ 73,023</u> | <u>73,344</u> | <u>71,128</u> | <u>2,216</u> |
| December 31, 2022 | | | | |
| Non-derivative financial liabilities | | | | |
| Short-term borrowings | \$ 66,019 | 66,508 | 66,508 | - |
| Accounts payable | 1,936 | 1,936 | 1,936 | - |
| Accrued payroll and bonus | 17,122 | 17,122 | 17,122 | - |
| Other accrued expenses | 19,614 | 19,614 | 19,614 | - |
| Lease liabilities (included in current and non-current) | 18,780 | 19,063 | 10,250 | 8,813 |
| Guarantee deposits received | 618 | 618 | - | 618 |
| | <u>\$ 124,089</u> | <u>124,861</u> | <u>115,430</u> | <u>9,431</u> |

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

C. Currency risk

(a) Exposure to currency risk

The Company's financial assets and liabilities exposed to exchange rate risk were as follows:

| <u>December 31, 2023</u> | <u>December 31, 2022</u> |
|--------------------------|--------------------------|
|--------------------------|--------------------------|

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| | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD | |
|-------------------------|---------------------|------------------|-------|---------------------|------------------|-------|--------|
| <u>Financial assets</u> | | | | | | | |
| <u>Monetary items</u> | | | | | | | |
| USD | \$ | 1,076 | 30.68 | 33,012 | 1,851 | 30.72 | 56,863 |

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| | December 31, 2023 | | | December 31, 2022 | | | |
|------------------------------|---------------------|------------------|-------|---------------------|------------------|-------|-------|
| | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD | |
| <u>Financial liabilities</u> | | | | | | | |
| <u>Monetary items</u> | | | | | | | |
| USD | \$ | 175 | 30.68 | 5,369 | 151 | 30.72 | 4,639 |

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, receivable (including receivables from related parties), accounts payable and other payables accounts that are denominated in foreign currency.

A 1% depreciation or appreciation of the TWD against the USD as of December 31, 2023 and 2022, would have decreased or increased the net loss by \$221 and \$418, respectively. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.

The Company's realized and unrealized foreign exchange gains (losses) on the foreign currency monetary items using the functional currency were as follows:

| | 2023 | | 2022 | |
|-----|---------------------------------------|--------------|---------------------------------------|--------------|
| | Foreign exchange gains (losses) | Average rate | Foreign exchange gains (losses) | Average rate |
| USD | \$ (269) | - | 4,278 | - |

D. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The Company's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, excluding financial instruments whose fair values approximate the carrying amounts and lease liabilities) were as follows:

| | Carrying Amount | December 31, 2023 | | | |
|---|--------------------|-------------------|----------|----------|----------|
| | | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | \$ 141,727 | - | - | - | - |
| Accounts receivable (including receivables from related parties) | 26,000 | - | - | - | - |
| Refundable deposits | 6,810 | - | - | - | - |
| | <u>\$ 174,537</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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| | | December 31, 2023 | | | | |
|--|----|-------------------|------------|---------|---------|-------|
| | | Carrying | Fair value | | | |
| | | Amount | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities measured at amortized cost | | | | | | |
| Short-term borrowings | \$ | 34,170 | - | - | - | - |
| Accounts payable | | 1,282 | - | - | - | - |
| Accrued payroll and bonus | | 13,120 | - | - | - | - |
| Other accrued expenses | | 14,886 | - | - | - | - |
| Lease liabilities (included in current and non-current) | | 8,947 | - | - | - | - |
| Guarantee deposits received | | 618 | - | - | - | - |
| | \$ | 73,023 | - | - | - | - |
| | | | | | | |
| | | December 31, 2022 | | | | |
| | | Carrying | Fair value | | | |
| | | Amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at amortized cost | | | | | | |
| Cash and cash equivalents | \$ | 65,952 | - | - | - | - |
| Accounts receivable (including receivables from related parties) | | 54,234 | - | - | - | - |
| Refundable deposits | | 6,779 | - | - | - | - |
| | \$ | 126,965 | - | - | - | - |
| | | | | | | |
| Financial liabilities measured at amortized cost | | | | | | |
| Short-term borrowings | \$ | 66,019 | - | - | - | - |
| Accounts payable | | 1,936 | - | - | - | - |
| Accrued payroll and bonus | | 17,122 | - | - | - | - |
| Other accrued expenses | | 19,614 | - | - | - | - |
| Lease liabilities (included in current and non-current) | | 18,780 | - | - | - | - |
| Guarantee deposits received | | 618 | - | - | - | - |
| | \$ | 124,089 | - | - | - | - |

(b) Valuation techniques for financial instruments not measured at fair value

Fair value measurement for financial assets and liabilities measured at amortized cost will be based on the latest quoted price and agreed-upon price if these prices are available in the active markets. When market value is unavailable, the fair value of financial liabilities is evaluated based on the discounted cash flow of the financial assets and liabilities.

Due to the refundable deposits and guarantee deposits received that do not have explicit expiration dates, their fair value is evaluated based on their carrying amounts.

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(17) Financial risk management

A. Overview

The Company is exposed to the following risks due to usage of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies, and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

B. Objectives and policies for managing risk

The core business departments are responsible for the management of operational risk. The Company has established appropriate procedures based on the nature of business. Before entering into transactions involving risk, the approval policy must be carried out based on related procedures. Significant contracts are approved by the general counsel, and the potential risks of operations are assessed by the Internal Audit Office as a reference for drafting its annual audit plan.

The Company regularly monitors risks faced by the Company in accordance with the Company's risk management policies and procedures to reflect changes in market conditions and the Company's activities. There are three monitoring mechanisms:

- (a) The department or employee responsible establishes a risk management mechanism that can effectively recognize, evaluate, supervise and control risk.
- (b) In addition to the risks approved by the related department or team, the general counsel assists the president to seek improvements of laws and risks.
- (c) The Internal Audit Office monitors risk, as overseen by the directors.

C. Credit risk

The credit risk information on cash and cash equivalents and receivables is disclosed in Note 6(16). According to the Company's policy, the Company could only provide financial guarantees for the entities in which it has business relationship with and demand short-term financing support from the Company. As of December 31, 2023 and 2022, the Company did not provide any financial guarantees for any such entities.

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D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity risk of the Company is monitored through its corporate treasury department which tracks the development of the actual cash flow position for the Company and uses input from a number of sources in order to forecast the overall liquidity position both on a short- and long-term basis. Corporate treasury invests surplus cash in money market deposits and short-term investments with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due. The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. As of December 31, 2023 and 2022, the Company has unused short-term bank facilities of \$26,834 and \$43,981, respectively.

E. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors and are subject to the monitor from internal audit office. Generally the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

The Company is exposed to currency risks on foreign currency denominated financial assets and liabilities arising from its operating, financing and investing activities.

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company's entities, primarily the TWD. The currencies used in these transactions are denominated in TWD, USD, and JPY.

In respect of the valuation of other monetary assets and liabilities denominated

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in foreign currencies, the Company hedges 50 percent of its net exposure (net cash flows) expected in three months, subject to the situation of which the rate may be adjusted to an acceptable level by buying or selling foreign currencies at spot rates, when there is necessary to address short-term imbalances. The Company uses forward exchange contracts to hedge, with a maturity of less than three months from the reporting date, and therefore, hedge accounting is not applied in these circumstances.

(18) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of common stock, capital surplus, retained earnings, and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to common stockholders.

3S's approach to capital management during the year ended December 31, 2023, was the same as that in 2022.

| | December 31, 2023 | December 31, 2022 |
|-----------------------|----------------------|----------------------|
| Total liabilities | <u>\$ 82,827</u> | <u>132,131</u> |
| Total equity | <u>\$ 426,108</u> | <u>497,659</u> |
| Debt-to-capital ratio | <u>19.44%</u> | <u>26.55%</u> |

As of December 31, 2023, the debt-to-adjusted-capital ratio had decreased due to capital increase, which used to repay bank borrowings for the period.

(19) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

| | Short-term borrowings | Lease liabilities | Guarantee deposits received | Total liabilities from financing activities |
|-------------------------------|--------------------------|----------------------|-----------------------------------|---|
| Balance as of January 1, 2023 | \$ 66,019 | 18,780 | 618 | 85,417 |
| Cash flows: | | | | |
| Proceeds from borrowings | 184,605 | - | - | 184,605 |
| Repayments of borrowings | (216,454) | - | - | (216,454) |
| Payment of lease liabilities | - | (11,025) | - | (11,025) |
| Interest paid | - | (228) | - | (228) |
| Non-cash flow: | | | | |

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

| | | | | |
|---------------------------------|------------------|--------------|------------|---------------|
| Increase in lease liabilities | - | 1,192 | - | 1,192 |
| Interest expense | - | 228 | - | 228 |
| Balance as of December 31, 2023 | <u>\$ 34,170</u> | <u>8,947</u> | <u>618</u> | <u>43,735</u> |

| | Short-term borrowings | Lease liabilities | Guarantee deposits received | Total liabilities from financing activities |
|---------------------------------|----------------------------------|------------------------------|--|--|
| Balance as of January 1, 2022 | \$ - | 15,001 | 618 | 15,619 |
| Cash flows: | | | | |
| Proceeds from borrowings | 141,019 | - | - | 141,019 |
| Repayments of borrowings | (75,000) | - | - | (75,000) |
| Payment of lease liabilities | - | (10,739) | - | (10,739) |
| Interest paid | - | (244) | - | (244) |
| Non-cash flow: | | | | |
| Increase in lease liabilities | - | 14,518 | - | 14,518 |
| Interest expense | - | 244 | - | 244 |
| Balance as of December 31, 2022 | <u>\$ 66,019</u> | <u>18,780</u> | <u>618</u> | <u>85,417</u> |

7. Related-Party Transactions

(1) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

| Name of related parties | Relationship with the Company |
|---|---|
| Kingston Digital International Ltd (KDIL) | The subsidiary of Kingston Technology Company |
| KIOXIA Corporation (KIC) | A member of the board of 3S |

(2) Significant transactions with related parties

A. Sales and service revenue from related parties

| Related Party Category | For the years ended December 31, | |
|-------------------------------|---|----------------|
| | 2023 | 2022 |
| Other related-parties: | | |
| KDIL | \$ 126,231 | 211,610 |
| KIC | 10,710 | 72,364 |
| | <u>\$ 136,941</u> | <u>283,974</u> |

The collection terms for sales to related parties will be 30 to 45 days or after the month-end; the prices of the products sold to related parties, which were determined by the products' specifications and the situation regarding market supply and demand,

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

and there was no significant difference as compared to those of the other parties.

B. Accounts receivable from related parties

| Related Party Category | December 31, 2023 | December 31, 2022 |
|-------------------------------|------------------------------|------------------------------|
| Other related-parties: | | |
| KDIL | \$ 10,040 | 40,635 |
| KIC | 2,071 | 8 |
| | <u>\$ 12,111</u> | <u>40,643</u> |

(3) Transactions with key management personnel

Key management personnel compensation comprised:

| | For the years ended December 31, 2023 | 2022 |
|------------------------------|--|----------------------|
| Short-term employee benefits | \$ 10,293 | 12,805 |
| Post-employment benefits | 1,762 | 324 |
| | <u>\$ 12,055</u> | <u>13,129</u> |

8. Pledged Assets

The carrying values of the Company's pledged assets are as follows:

| Assets | Purpose of Pledged | December 31, 2023 | December 31, 2022 |
|--|---------------------------|------------------------------|------------------------------|
| Time deposits (recorded in other current assets) | Customs duty guarantee | \$ 900 | 900 |
| Time deposits (recorded in other current assets) | Inventory guarantee | 10,000 | - |
| Refundable deposits | Warranty guarantee | 3,976 | 4,000 |
| | | <u>\$ 14,876</u> | <u>4,900</u> |

9. Commitments and Contingencies

3S has obtained licenses to use other companies' technology, which requires a monthly royalty payment based on its sales volume. 3S must also guarantee the minimum production capacity required by some outsourcing factories.

10. Losses Due to Major Disasters: None.

11. Subsequent Events: None.

12. Others

- (1) 3S incurred a net loss amounting to \$220,015 as of December 31, 2023. 3S intends to adopt the following countermeasures to maintain its operation:

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

A. Marketing plans

- (a) Continue optimizing customer and product portfolios in order to provide higher value-added and profitable services.
- (b) Continue to enhance operation efficiency through improving material cost management and production efficiency to maximize profit.

B. Financial structure improvement plans

- (a) Enforce inventory management, analyze the sales status and adjust inventory levels when necessary, and close out the slow-moving inventory in order to reduce the stock risk and capital lying idle.
- (b) Propose to dispose the assets in order to enrich working capital.
- (c) Control the labor expenditure, as well as review and improve the daily expenses of 3S in order to avoid unnecessary expenses at all costs.

- (2) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

| By function By item | 2023 | | | 2022 | | |
|----------------------------|--|---|---------|--|---|---------|
| | Classified as Operating Costs | Classified as Operating Expenses | Total | Classified as Operating Costs | Classified as Operating Expenses | Total |
| Employee benefits | | | | | | |
| Salary | 14,530 | 130,836 | 145,366 | 3,974 | 145,232 | 149,206 |
| Labor and health insurance | 415 | 10,847 | 11,262 | 356 | 11,407 | 11,763 |
| Pension | 220 | 6,323 | 6,543 | 188 | 6,829 | 7,017 |
| Others | 472 | 5,188 | 5,660 | 233 | 6,238 | 6,471 |
| Depreciation | 9,462 | 23,130 | 32,592 | 15,000 | 21,580 | 36,580 |
| Amortization | - | 11,050 | 11,050 | - | 13,072 | 13,072 |

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

13. Other disclosures

(1) Information on Significant Transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the 3S:

- A. Loans to other parties: None.
- B. Guarantees and endorsements for other parties: None.
- C. Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures): None.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

| Name of Company | Related Party | Nature of Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Notes/Accounts Receivable (Payable) | | Note |
|-----------------|---------------|--------------------------------|-------------------------|---------|-------------------------------------|---------------|---|---------------|-------------------------------------|---|------|
| | | | Purchase/Sales | Amount | Percentage of Total Purchases/Sales | Payment Terms | Unit Price | Payment Terms | Ending Balance | Percentage of Total Notes/Accounts Receivable (Payable) | |
| 3S | KDIL | The subsidiary of its director | Sales and miscellaneous | 126,231 | 46% | 30~45 days | Note | 30~45 days | 10,040 | 39% | |

Note: The prices of the products sold to related parties, which were determined by the products' specifications and fair market value, have no significant differences as compared to those of the other parties.

- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- I. Trading in derivative instruments: None.
- J. Business relationships and significant intercompany transactions: None.

(2) Information on Investees:

The following is the information on investees for the year ended December 31, 2023 (excluding information on investees in Mainland China):

| Name of Investor | Name of Investee | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2023 | | | Highest Percentage of Ownership | Net Income (Losses) of Investee | Share of Profits/Losses of Investee | Note |
|------------------|------------------|----------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---------------------------------|---------------------------------|-------------------------------------|--------------|
| | | | | December 31, 2023 | December 31, 2022 | Shares | Percentage of Ownership | Carrying Value | | | | |
| 3S | ViCHIP | Hsin chu | Operating electronic components manufacturing, wholesaling, sales and product design business | - | 52,400 | - | - % | - | 100.00% | - | - | Note 1 and 2 |

Note 1: The intercompany transactions and balances had been eliminated in the consolidated financial report.

Note 2: 3S liquidated its subsidiary, ViCHIP, on November 3, 2022. All related statutory registration procedures had already been completed on October 24, 2023.

(3) Information on Investment in Mainland China:

- A. The names of investees in Mainland China, the main businesses and products, and other information: None
- B. Limitation on investment in Mainland China: None
- C. Significant transactions: None

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

(4) Major shareholders:

| Shareholder's Name | Shareholding | Shares | Percentage |
|------------------------------------|--------------|-----------|------------|
| TA YU CHEN | | 3,816,646 | 7.66% |
| Kingston Digital International Ltd | | 3,485,652 | 7.00% |
| KIOXIA Corporation | | 3,375,480 | 6.78% |
| CHIH LIANG TSAO | | 2,782,826 | 5.59% |

Note:

1. The information on major shareholders, which is provided by the Taiwan Depository & Clearing Corporation, summarized the shareholders who held over 5% of the total non physical common stocks and preferred stocks (including treasury stocks) on the last business date of each quarter. The registered non physical stocks may be different from the capital stocks disclosed in the financial statement due to different calculations basis.
2. The Company based on the Board of Directors approved the proposal, to raise capital increase through private placement of 7,200 thousand common stock on November 2, 2023. As of December 31, 2023, common stock has not delivered yet.
3. In the case of the above information, if the shareholder delivers the shares to the trust, the shares will be disclosed as a personal account under the trust account of the principal opened by the trustee. As for the shareholders' declaration of more than 10% of the insider's shareholdings under the Securities and Exchange Act, the shareholders' stocks should be included in their own shareholdings, plus, the shares delivered to the trust, wherein the shareholders have the right of decision on using the trust property. For information on insider's equity declaration, please refer to market observation post system.

14. Segment Information

(1) General information and segment information

The Company operates predominantly in one industry segment which includes the in the research, development, manufacture and sale of integrated circuits (ICs). The segment information is found in the consolidated financial statements. For sales to other than the consolidated entities and income before income tax, please see statements of comprehensive income. For assets, please see the consolidated balance sheets.

(2) Products and services information

Please refer to note 6(13) on information regarding products and services for the years ended December 31, 2023 and 2022.

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

(3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

| | December 31, 2023 | December 31, 2022 |
|---------------------|------------------------------|------------------------------|
| Non-current assets: | | |
| Taiwan | <u>\$ 50,172</u> | <u>95,562</u> |

Please refer to note 6(13) for the revenues from external customers for the years ended December 31, 2023 and 2022.

(4) Major customer information

The amounts of sales to customers representing greater than 10% of the revenues were as follows:

| | For the years end December 31, 2023 | 2022 |
|-----------|--|-----------------------|
| KDIL | \$ 126,231 | 211,610 |
| KIC | - | 72,364 |
| H Company | <u>36,235</u> | <u>-</u> |
| | <u>\$ 162,466</u> | <u>283,974</u> |

Independent Auditors' Report

To the Board of Directors of
Solid State System Co., Ltd.:

Opinion

We have audited the parent-company-only financial statements of Solid State System Co., Ltd., which comprise the balance sheets as of December 31, 2023 and 2022, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the parent-company-only financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the parent-company-only financial position of Solid State System Co., Ltd. as of December 31, 2023 and 2022, and its parent-company-only financial performance and its parent-company-only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent-company-only financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the parent-company-only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgment, the key audit matters should be reflected in our report are as follow:

1. Valuation of inventories

Please refer to Note 4(7) "Summary of Significant Accounting Policies — Inventories", Note 5(1) "Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty — Valuation of inventories", and Note 6(3) "Explanation of Significant Accounts — Inventories" to the parent-company-only financial statements.

Description of key audit matter:

Solid State System Co., Ltd.'s main products included NAND Flash controller IC and Audio IC, wherein its inventories are measured at the lower of cost and net realizable value. Due to the rapid changes in electronic industry, the old models produced by Solid State System Co., Ltd. may quickly be replaced by new ones or may fail to meet the market demand resulting in a risk in which the carrying value of inventories may be higher than its net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon which might be subject to significant fluctuations. Therefore, the valuation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Inspecting the inventory aging report and analyzing the difference in the inventory aging in comparison to prior periods. Testing inventory Lower-of-cost-or-net-realizable value evaluating report and testing the accuracy of the inventory aging report. Assessing the management's assumptions on the completeness of inventory provisions. Evaluating the appropriateness of the inventory valuation, evaluating the management's calculations for inventory loss with reference to historical trends to ensure their appropriateness and considering the adequacy of Solid State System Co., Ltd.'s disclosures in the accounts.

2. Impairment assessment on non-financial assets

Please refer to Note 4(12) "Summary of Significant Accounting Policies—Impairment of non-financial assets", Note 5(2) "Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty—Impairment Assessment on non-financial assets", and Notes 6(5), (6) and (7) "Explanation of Significant Accounts—Property, plant and equipment", "Explanation of Significant Accounts—Right-of-use assets" and "Explanation of Significant Accounts—Intangible assets", respectively, to the parent-company-only financial statements.

Description of key audit matter:

Solid State System Co., Ltd. has performed poorly in operation in recent years, resulting in a risk in which the impairment loss of non-financial assets and the recoverable amount of assets may become lower than the carrying value of assets. The valuation of the impairment loss of assets that are based on the cash flow in the future is subject to the management's judgment which has significant uncertainty, and the audit team needs to discuss the matter with the management to evaluate the adequacy of the valuation. Therefore, the impairment assessment on non-financial assets is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Assessing whether there are impairment indications for Solid State System Co., Ltd.'s related assets; understanding and assessing the appropriateness of the valuation model used by the management in the impairment assessment and the significant assumptions used to determine related assets' future cash flows projection, useful lives, and weighted-average cost of capital; retrospectively reviewing the accuracy of assumptions used in prior-period estimates and performing a sensitivity analysis of key assumptions and results; in addition to the above audit procedures, appointing specialists to evaluate the appropriateness of the weighted-average cost of capital used; performing an inquiry of the management and identifying any event after the balance sheet date if able to affect the results of the impairment assessment; obtaining the subsequent financial information to assess the rationality of the evaluation of impairment.

Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent-company-only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent-company-only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the Audit Committee) are responsible for overseeing Solid State System Co., Ltd.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Parent-company-only Financial Statements

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

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

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

5. Evaluate the overall presentation, structure and content of the parent-company-only financial statements, including the disclosures, and whether the parent-company-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in entities accounted for using equity method to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
February 22, 2024

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese.)
Solid State System Co., Ltd.
Balance Sheets
December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

| Assets | December 31, 2023 | | December 31, 2022 | | Liabilities and Equity | Amount | | Amount | |
|--|-------------------|------------|-------------------|------------|---|-------------------|------------|----------------|------------|
| | Amount | % | Amount | % | | | % | | % |
| Current assets: | | | | | Current liabilities: | | | | |
| Cash and cash equivalents (note 6(1)) | \$ 141,727 | 28 | 64,616 | 10 | Short-term borrowings (note 6(8)) | \$ 34,170 | 7 | 66,019 | 10 |
| Accounts receivable, net (note 6(2)) | 13,889 | 3 | 13,532 | 2 | Accounts payable | 1,282 | - | 1,936 | - |
| Accounts receivable from related parties, net (notes 6(2) and 7) | 12,111 | 2 | 40,643 | 6 | Accrued payroll and bonus | 13,120 | 3 | 17,122 | 3 |
| Inventories (note 6(3)) | 268,581 | 53 | 390,453 | 62 | Other accrued expenses | 14,886 | 3 | 19,614 | 3 |
| Other current assets (note 8) | 15,645 | 3 | 9,538 | 2 | Current lease liabilities (note 6(9)) | 7,354 | 1 | 10,033 | 2 |
| | 451,953 | 89 | 518,782 | 82 | Other current liabilities | 9,804 | 2 | 6,264 | 1 |
| | | | | | | 80,616 | 16 | 120,988 | 19 |
| Non-current assets: | | | | | Non-current liabilities: | | | | |
| Property, plant and equipment (note 6(5)) | 29,352 | 6 | 57,785 | 9 | Deferred tax liabilities (note 6(11)) | - | - | 1,718 | - |
| Right-of-use assets (note 6(6)) | 11,778 | 2 | 23,600 | 4 | Non-current lease liabilities (note 6(9)) | 1,593 | - | 8,747 | 2 |
| Intangible assets (note 6(7)) | 9,042 | 2 | 14,177 | 2 | Guarantee deposits received | 618 | - | 618 | - |
| Refundable deposits (note 8) | 6,810 | 1 | 6,779 | 1 | | 2,211 | - | 11,083 | 2 |
| Net defined benefit asset, non-current (note 6(10)) | - | - | 8,490 | 2 | | 82,827 | 16 | 132,071 | 21 |
| Other non-current assets | - | - | 117 | - | Total liabilities | | | | |
| | 56,982 | 11 | 110,948 | 18 | Equity (note 6(12)): | | | | |
| | | | | | Common stock | 569,659 | 112 | 746,877 | 119 |
| | | | | | Capital surplus | 76,464 | 15 | - | - |
| | | | | | Accumulated deficits | (220,015) | (43) | (249,218) | (40) |
| | | | | | Total equity | 426,108 | 84 | 497,659 | 79 |
| | | | | | Total liabilities and equity | \$ 508,935 | 100 | 629,730 | 100 |
| Total assets | \$ 508,935 | 100 | 629,730 | 100 | | | | | |

December 31, 2023 December 31, 2022

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese.)

Solid State System Co., Ltd.

Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

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

| | For the year ended December 31, | | | |
|---|---------------------------------|-------------|------------------|-------------|
| | 2023 | | 2022 | |
| | Amount | % | Amount | % |
| Operating revenues (notes 6(14) and 7) | \$ 275,641 | 100 | 402,537 | 100 |
| Operating costs (notes 6(3) and 12) | 260,326 | 94 | 286,118 | 71 |
| Gross profit | 15,315 | 6 | 116,419 | 29 |
| Realized profit or loss from sales | - | - | 7 | - |
| Realized gross profit | 15,315 | 6 | 116,426 | 29 |
| Operating expenses (notes 7 and 12): | | | | |
| Selling | 57,140 | 21 | 67,702 | 17 |
| General and administrative | 43,120 | 16 | 35,860 | 9 |
| Research and development | 123,010 | 44 | 133,920 | 33 |
| Total operating expenses | 223,270 | 81 | 237,482 | 59 |
| Net operating loss | (207,955) | (75) | (121,056) | (30) |
| Non-operating income and expenses (note 6(16)): | | | | |
| Interest income | 766 | - | 561 | - |
| Other gains and losses | (12,764) | (5) | (5,456) | (1) |
| Finance costs (note 6(9)) | (1,780) | - | (667) | - |
| Share of profit (loss) of associates and joint ventures accounted for using equity method, net (note 6(4)) | - | - | (76) | - |
| Total non-operating income and expenses | (13,778) | (5) | (5,638) | (1) |
| Loss before income tax | (221,733) | (80) | (126,694) | (31) |
| Income tax (Profit) expenses (note 6(11)) | (1,718) | - | 29,865 | 8 |
| Net loss for the period | (220,015) | (80) | (156,559) | (39) |
| Other comprehensive income: | | | | |
| Items that may not be reclassified subsequently to profit or loss | | | | |
| Remeasurements of defined benefit plans (note 6(10)) | - | - | 4,265 | 1 |
| Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(11)) | - | - | 853 | - |
| Total items that may not be reclassified subsequently to profit or loss | - | - | 3,412 | 1 |
| Other comprehensive income for the period (after tax) | - | - | 3,412 | 1 |
| Total comprehensive income for the period | \$ (220,015) | (80) | (153,147) | (38) |
| Earnings per share (New Taiwan Dollars) (note 6(13)) | | | | |
| Basic earnings per share | \$ (4.34) | | (3.15) | |
| Diluted earnings per share | \$ (4.34) | | (3.15) | |

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese.)

Solid State System Co., Ltd.

Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

| | Common stock | Capital surplus | Accumulated deficits | Total equity |
|---|--------------------------|----------------------------|---------------------------------|-----------------------|
| Balance as of January 1, 2022 | <u>\$ 746,877</u> | <u>176,995</u> | <u>(273,066)</u> | <u>650,806</u> |
| Net loss for the period | - | - | (156,559) | (156,559) |
| Other comprehensive income for the period | - | - | 3,412 | 3,412 |
| Total comprehensive income for the period | - | - | (153,147) | (153,147) |
| Capital surplus used to offset accumulated deficits | - | (176,995) | 176,995 | - |
| Balance as of December 31, 2022 | <u>746,877</u> | <u>-</u> | <u>(249,218)</u> | <u>497,659</u> |
| Net loss for the period | - | - | (220,015) | (220,015) |
| Other comprehensive income for the period | - | - | - | - |
| Total comprehensive income for the period | - | - | (220,015) | (220,015) |
| Issue of shares | 72,000 | 76,464 | - | 148,464 |
| Capital reduction to offset accumulated deficits | (249,218) | - | 249,218 | - |
| Balance as of December 31, 2023 | <u>\$ 569,659</u> | <u>76,464</u> | <u>(220,015)</u> | <u>426,108</u> |

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese.)

Solid State System Co., Ltd.

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

| | For the year ended December 31, | |
|--|--|------------------|
| | 2023 | 2022 |
| Cash flows from operating activities: | | |
| Loss before income tax | \$ (221,733) | (126,694) |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation | 32,592 | 36,580 |
| Amortization | 11,050 | 13,072 |
| Expected credit loss (gain) | 4 | (38) |
| Interest expense | 1,780 | 667 |
| Interest income | (766) | (561) |
| Share of loss of subsidiaries accounted for using equity method | - | 76 |
| Realized loss (profit) from sales | - | (7) |
| Gain on disposal of property, plant and equipment | (285) | (1,680) |
| Impairment loss on non-financial assets | 14,658 | 12,819 |
| Provision for inventory devaluation loss | 56,101 | 30,341 |
| Others | 735 | 20 |
| Total adjustments to reconcile profit (loss) | 115,869 | 91,289 |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Accounts receivable | (361) | 8,143 |
| Accounts receivable from related parties | 28,532 | 18,131 |
| Inventories | 65,771 | (86,003) |
| Other operating assets | 474 | 1,286 |
| Total changes in operating assets | 94,416 | (58,443) |
| Changes in operating liabilities: | | |
| Accounts payable | (654) | (23,864) |
| Other operating liabilities | (5,493) | (29,319) |
| Total changes in operating liabilities | (6,147) | (53,183) |
| Total changes in operating assets and liabilities | 88,269 | (111,626) |
| Total adjustments | 204,138 | (20,337) |
| Cash flows used in operations | (17,595) | (147,031) |
| Interest received | 680 | 518 |
| Interest paid | (1,791) | (594) |
| Income taxes paid | (28) | (2) |
| Income taxes refund | 2 | - |
| Net cash flows used in operating activities | (18,732) | (147,109) |
| Cash flows from investing activities: | | |
| Proceeds from disposal of subsidiaries | 2,108 | - |
| Acquisition of property, plant and equipment | (6,194) | (9,435) |
| Proceeds from disposal of property, plant and equipment | 285 | 2,124 |
| Decrease (increase) in refundable deposits | (31) | 316 |
| Acquisition of intangible assets | (5,915) | (6,962) |
| Net cash flows used in investing activities | (9,747) | (13,957) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 184,605 | 141,019 |
| Repayments of borrowings | (216,454) | (75,000) |
| Payment of lease liabilities | (11,025) | (10,739) |
| Proceeds from issuing shares | 148,464 | - |
| Net cash flows from financing activities | 105,590 | 55,280 |
| Net increase (decrease) in cash and cash equivalents for the period | 77,111 | (105,786) |
| Cash and cash equivalents at beginning of period | 64,616 | 170,402 |
| Cash and cash equivalents at end of period | \$ 141,727 | 64,616 |

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese.)

Solid State System Co., Ltd.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

**(Expressed in Thousands of New Taiwan Dollars,
Except for Earnings Per Share Information and Unless Otherwise Specified)**

1. Company History

Solid State System Co., Ltd. (“the Company”) was incorporated on November 26, 1998, as a company limited by shares and registered under the Ministry of Economic Affairs of the Republic of China (“R.O.C.”). The address of the Company’s registered office is 5F-1 No. 22 Tai Yuen Street, Tai Yuen Hi-Tech Industrial Park, Zhubei City, Hsinchu 302, Taiwan, R. O. C.. The Company’s common stocks have been publicly listed on Taipei Exchange since December 24, 2007.

The main activities of the Company is the design, research, development, manufacture and sale of integrated circuits (ICs).

2. Approval Date and Procedures of the Financial Statements

The Parent-Company-Only financial statements were authorized for issue by the Board of Directors on February 22, 2024.

3. New Standards, Amendments and Interpretations Adopted:

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

The Company has initially adopted the following new amendments, which do not have a significant impact on its parent-company-only financial statements, from January 1, 2023:

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

The Company has initially adopted the following new amendment, which do not have a significant impact on its parent-company-only financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform – Pillar Two Model Rules”

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

The Company assesses that the adoption of the (following) new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its parent-company-only financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”

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- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”
- (3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The Company does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its parent-company-only financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS21 “Lack of Exchangeability”

4. Summary of Material Accounting Policies

The significant accounting policies applied in the preparation of these parent-company-only financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in the parent-company-only financial statements.

(1) Statement of compliance

The parent-company-only financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” (hereinafter referred to as the Regulations).

(2) Basis of preparation

A. Basis of measurement

The parent-company-only financial statements have been prepared on a historical cost basis except for the net defined benefit assets are measured at fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The parent-company-only financial statements are presented in New Taiwan Dollars (“TWD”), which is the Company’s functional currency. All financial information presented in TWD has been rounded to the nearest thousand.

Solid State System Co., Ltd.
Notes to the Financial Statements

(3) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period (hereinafter referred to as the reporting date), monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transactions.

Exchange differences are generally recognized in profit or loss except for the differences of FVOCI-equity instrument, which are recognized in other comprehensive income.

(4) Classification of current and non-current assets and liabilities

The Company classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. It holds the asset primarily for the purpose of trading;
- C. It expects to realize the asset within twelve months after the reporting period; or
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

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

(5) Cash and cash equivalents

Cash comprises cash on hand, petty cash and demand deposits. Cash equivalents are 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.

The time deposits, which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(6) Financial instruments

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Notes to the Financial Statements

Accounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is an accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Accounts receivables without a significant financing component is initially measured at the transaction price.

A. Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost and FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(b) Financial assets at FVTPL

All financial assets not classified as amortized cost is measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(c) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, receivables, other receivables, refundable deposits and other financial assets) and contract assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

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- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12-month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 180 days past due and the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. The difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. the Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(d) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows

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Notes to the Financial Statements

in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

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

(b) Equity instruments

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

(c) Financial liabilities

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

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

(d) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(e) Offsetting of financial assets and liabilities

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

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C. Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(7) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories include expenditure incurred in acquiring the inventories, conversion costs, and other costs (weighted-average method) incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs incurred in acquiring the available-for-sale inventories and selling expenses.

(8) Investment in subsidiaries

The Company's subsidiaries are accounted for using the equity method when preparing their parent company only financial statements. Under the equity method, profit, other comprehensive income and equity in the parent-company-only financial statements are equivalent to those of the profit, other comprehensive income and equity which are contributed to the owners of the parent in the consolidated financial statements.

The changes in the parent's interest in its subsidiaries that do not result in a loss of control are accounted as equity transactions.

(9) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

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

B. Subsequent cost

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

C. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is

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Notes to the Financial Statements

recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- (a) Building: 2 to 10 years
- (b) Office and other equipment: 3 to 10 years

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

(10) Leases

A. Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

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

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At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate these non-lease components, and account for the lease and non-lease components as a single lease component.

B. As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a

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residual value guarantee; or

- there is a change in the assessment regarding the purchase option; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there are any lease modifications.

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company has elected not to recognize the right-of-use assets and lease liabilities for its parking space and other, which qualifies as short-term assets leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For sale and leaseback transactions, the Company applies the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of the asset. If the transfer of an asset satisfies the requirement of IFRS 15 to be accounted for as a sale of the asset, the Company derecognizes the transferred asset, then measures the right of use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Accordingly, the Company recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer lessor. For leaseback transaction, the Company applies the lessee accounting policy. If the transfer of an asset does not satisfy the requirement of IFRS 15 to be accounted for as a sale of the asset, the Company continues to recognize the transferred asset and recognizes the financial liability equal to the transfer proceeds.

(11) Intangible assets

A. Research and development

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Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

C. Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- (a) Software: 3 to 6 years
- (b) Patent and technology fee: 3 to 10 years

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

(12) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present

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value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(13) Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense.

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(14) Revenue from contract with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

A. Sale of goods

The Company's main products included NAND Flash controller IC and Audio IC. The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

B. Rendering of services

Some of the manufacturing and sales contracts of the Company include pre-production activities such as researching, developing, designing and testing of new products. Revenue from providing services is recognized in the accounting

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period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the reporting date as a proportion of the total services to be provided. The proportion of services provided is determined based on the actual labor hours spent relative to the total expected labor hours of the transaction.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset (recorded in other current assets) is recognized. If the payments exceed the services rendered, a contract liability is recognized.

If the contract includes an hourly fee, revenue is recognized in the amount to which the Company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

C. Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(15) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

B. Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a

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qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the defined benefit asset. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(16) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

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Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities at the reporting date and their respective tax bases.

Deferred tax assets are recognized for the carry forward of unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each financial reporting date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- A. The entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - (a) Levied by the same taxing authority; or
 - (b) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

(17) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to common stockholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the common stockholders of the Company divided by the weighted-average number of common stock outstanding. The calculation of diluted earnings per share is based on the profit attributable to common stockholders of the Company, divided by the weighted-average number of common stock outstanding after adjustment for the effects of all dilutive potential common stock.

(18) Operating segment information

The Company has disclosed operating segment information in consolidated financial statements. Hence, this information is not required to be disclosed in these parent-company-only financial statements.

5. Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty

The preparation of the parent-company-only financial statements in conformity with the Regulations requires management to make judgments, estimations, and assumptions that affect the application of the accounting policies and the reported amount of assets,

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liabilities, income, and expenses. Actual results may differ from these estimates.

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in accounting estimations during the period in which the estimates are revised and in any future periods affected.

The following assumptions and estimated with uncertainties have a significant risk of causing significant adjustments to the carrying amount of assets and liabilities in the next financial year. The relevant information is as follows:

(1) Valuation of inventories

Due to the rapid technological changes, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the reporting date, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of future demand within a specific time horizon which might subject to significant fluctuations. Please refer to note 6(3) for further description of the valuation of inventories.

(2) Impairment assessment on non-financial assets

In the process of evaluating the potential assets, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years. Please refer to notes 6(5), (6) and (7) for further description of the impairment assessment on non-financial assets.

6. Explanation of Significant Accounts

(1) Cash and cash equivalents

| | December 31, 2023 | December 31, 2022 |
|-------------------------------|------------------------------|------------------------------|
| Cash on hand and petty cash | \$ 119 | 53 |
| Checking and savings accounts | 29,108 | 29,563 |
| Time deposits | 112,500 | 35,000 |
| | <u>\$ 141,727</u> | <u>64,616</u> |

Please refer to note 6(18) for the disclosure of currency risk of the financial assets and liabilities of the Company.

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(2) Accounts receivable (including receivables from related parties)

| | December 31, 2023 | December 31, 2022 | January 1, 2022 |
|--|-------------------------|----------------------|----------------------|
| Accounts receivable (including receivables from related parties) | \$ 26,020 | 54,191 | 80,465 |
| Less: loss allowance | (20) | (16) | (54) |
| | <u>\$ 26,000</u> | <u>54,175</u> | <u>80,411</u> |
| Accounts receivable, net | <u>\$ 13,889</u> | <u>13,532</u> | <u>21,637</u> |
| Accounts receivable from related parties, net | <u>\$ 12,111</u> | <u>40,643</u> | <u>58,774</u> |

The Company applies the simplified approach to provide for its expected credit losses (ECL), which permit the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The expected loss allowance for accounts receivable (including receivables from related parties) was determined as follows:

| | December 31, 2023 | | |
|--------------------|--------------------------|-------------------------------|----------------------------|
| | Gross carrying amount | Weighted-average loss rate | Expected loss allowance |
| Not past due | \$ 25,438 | 0.067% | 17 |
| Past due 1~89 days | 582 | 0.515% | 3 |
| Total | <u>\$ 26,020</u> | | <u>20</u> |

| | December 31, 2022 | | |
|--------------------|--------------------------|-------------------------------|----------------------------|
| | Gross carrying amount | Weighted-average loss rate | Expected loss allowance |
| Not past due | \$ 53,807 | 0.030% | 16 |
| Past due 1~89 days | 384 | - % | - |
| Total | <u>\$ 54,191</u> | | <u>16</u> |

The movements in the allowance for accounts receivable (including receivables from related parties) were as follows:

| | For the years ended December 31, | |
|---------------------------------------|----------------------------------|------------------|
| | 2023 | 2022 |
| Beginning balance | \$ 16 | 54 |
| Impairment loss (reversed) recognized | 4 | (38) |
| Ending balance | <u>\$ 20</u> | <u>16</u> |

The Company's net accounts receivable (including receivables from related parties) mentioned above were not pledged as collateral.

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(3) Inventories

| | December 31, 2023 | December 31, 2022 |
|-----------------|--------------------------|-----------------------|
| Raw materials | \$ 26,153 | 21,248 |
| Work in process | 100,531 | 161,552 |
| Finished goods | 141,897 | 207,653 |
| | <u>\$ 268,581</u> | <u>390,453</u> |

The details of operating costs were as follows:

| | For the years ended December 31, 2023 | 2022 |
|--|--|-----------------------|
| Cost of goods sold | \$ 193,264 | 249,772 |
| Technical service cost | 10,825 | 492 |
| Provision for inventory devaluation loss | 56,101 | 30,341 |
| Unallocated production overheads | 924 | 6,334 |
| Revenue from sale of scrap | (788) | (817) |
| Physical inventory gain | - | (4) |
| | <u>\$ 260,326</u> | <u>286,118</u> |

The Company's inventories mentioned above were not pledged as collateral.

(4) Investments accounted for using equity method

For the years ended December 31, 2023 and 2022, share of loss of the subsidiary amounted to \$0 and \$76, respectively.

The Company liquidated its subsidiary, ViCHIP, on November 3, 2022 with the approval of the board. All related statutory registration procedures had already been completed on October 24, 2023.

Please refer to consolidated financial statements for the year ended December 31, 2023 for the subsidiary information.

(5) Property, plant and equipment

| | Machinery and equipment | Office and other equipment | Total |
|---------------------------------|----------------------------|----------------------------------|-----------------------|
| Cost: | | | |
| Balance as of January 1, 2023 | \$ 117,202 | 45,291 | 162,493 |
| Additions | 1,607 | 4,903 | 6,510 |
| Disposal and write-off | (7,178) | (3,775) | (10,953) |
| Reclassification | (428) | (279) | (707) |
| Balance as of December 31, 2023 | <u>\$ 111,203</u> | <u>46,140</u> | <u>157,343</u> |
| Balance as of January 1, 2022 | \$ 131,245 | 39,819 | 171,064 |

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| | | | |
|---|--------------------------|----------------------|-----------------------|
| Additions | 4,999 | 5,472 | 10,471 |
| Disposal and write-off | (19,042) | - | (19,042) |
| Balance as of December 31, 2022 | <u>\$ 117,202</u> | <u>45,291</u> | <u>162,493</u> |
| Accumulated depreciation and impairment loss: | | | |
| Balance as of January 1, 2023 | \$ 76,920 | 27,788 | 104,708 |
| Depreciation for the period | 11,008 | 8,570 | 19,578 |
| Impairment loss | 13,744 | 914 | 14,658 |
| Disposal and write-off | (7,178) | (3,775) | (10,953) |
| Balance as of December 31, 2023 | <u>\$ 94,494</u> | <u>33,497</u> | <u>127,991</u> |
| Balance as of January 1, 2022 | \$ 65,600 | 21,072 | 86,672 |
| Depreciation for the period | 17,099 | 6,716 | 23,815 |
| Impairment loss | 12,819 | - | 12,819 |
| Disposal and write-off | (18,598) | - | (18,598) |
| Balance as of December 31, 2022 | <u>\$ 76,920</u> | <u>27,788</u> | <u>104,708</u> |
| Book value: | | | |
| Balance as of December 31, 2023 | <u>\$ 16,709</u> | <u>12,643</u> | <u>29,352</u> |
| Balance as of January 1, 2022 | <u>\$ 65,645</u> | <u>18,747</u> | <u>84,392</u> |
| Balance as of December 31, 2022 | <u>\$ 40,282</u> | <u>17,503</u> | <u>57,785</u> |

A. Impairment loss

For the year ended December 31, 2023 and 2022, the Company assessed the impairment loss on reticle masks due to the changes in production technology to be \$14,658 and \$12,819, recognized as “Other gains and losses” in the consolidated statement of comprehensive income.

B. Collateral

The Company’s property, plant and equipment mentioned above were not pledged as collateral.

(6) Right-of-use assets

| | <u>Buildings</u> |
|---------------------------------|-------------------------|
| Cost: | |
| Balance as of January 1, 2023 | \$ 40,326 |
| Additions | 1,192 |
| Decreases | (971) |
| Balance as of December 31, 2023 | <u>\$ 40,547</u> |
| Balance as of January 1, 2022 | \$ 39,754 |
| Additions | 14,518 |
| Decreases | (13,946) |
| Balance as of December 31, 2022 | <u>\$ 40,326</u> |

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Accumulated Depreciation:

| | |
|---------------------------------|-------------------------|
| Balance as of January 1, 2023 | \$ 16,726 |
| Depreciation for the period | 13,014 |
| Decreases | (971) |
| Balance as of December 31, 2023 | <u>\$ 28,769</u> |
| Balance as of January 1, 2022 | \$ 17,907 |
| Depreciation for the period | 12,765 |
| Decreases | (13,946) |
| Balance as of December 31, 2022 | <u>\$ 16,726</u> |

Book value:

| | |
|---------------------------------|-------------------------|
| Balance as of December 31, 2023 | <u>\$ 11,778</u> |
| Balance as of January 1, 2022 | <u>\$ 21,847</u> |
| Balance as of December 31, 2022 | <u>\$ 23,600</u> |

Assets of the Company that have indications of impairment on the reporting date are tested for impairment on the basis of individual assets or their CGUs. According to the test for impairment for 2023 and 2022, the recoverable amount for an asset or a CGU is the higher than its book value. Therefore, the Company did not recognize any impairment loss on right-of-use assets.

(7) Intangible assets

| | Computer software | Patent and technology license fee | Total |
|---------------------------------|------------------------------|--|----------------------|
| Cost: | | | |
| Balance as of January 1, 2023 | \$ 27,664 | 24,591 | 52,255 |
| Additions | 5,915 | - | 5,915 |
| Write-off | (22,448) | (3,695) | (26,143) |
| Balance as of December 31, 2023 | <u>\$ 11,131</u> | <u>20,896</u> | <u>32,027</u> |
| Balance as of January 1, 2022 | \$ 24,973 | 34,711 | 59,684 |
| Additions | 6,962 | - | 6,962 |
| Write-off | (4,271) | (10,120) | (14,391) |
| Balance as of December 31, 2022 | <u>\$ 27,664</u> | <u>24,591</u> | <u>52,255</u> |
| Accumulated amortization: | | | |
| Balance as of January 1, 2023 | \$ 24,267 | 13,811 | 38,078 |
| Amortization for the period | 7,347 | 3,703 | 11,050 |
| Write-off | (22,448) | (3,695) | (26,143) |
| Balance as of December 31, 2023 | <u>\$ 9,166</u> | <u>13,819</u> | <u>22,985</u> |
| Balance as of January 1, 2022 | \$ 19,835 | 19,562 | 39,397 |
| Amortization for the period | 8,703 | 4,369 | 13,072 |
| Write-off | (4,271) | (10,120) | (14,391) |

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| | | | | |
|---------------------------------|-----------|---------------|---------------|---------------|
| Balance as of December 31, 2022 | <u>\$</u> | <u>24,267</u> | <u>13,811</u> | <u>38,078</u> |
| Book value: | | | | |
| Balance as of December 31, 2023 | <u>\$</u> | <u>1,965</u> | <u>7,077</u> | <u>9,042</u> |
| Balance as of January 1, 2022 | <u>\$</u> | <u>5,138</u> | <u>15,149</u> | <u>20,287</u> |
| Balance as of December 31, 2022 | <u>\$</u> | <u>3,397</u> | <u>10,780</u> | <u>14,177</u> |

Assets of the Company that have indications of impairment on the reporting date are tested for impairment on the basis of individual assets or their CGUs. According to the test for impairment for 2023 and 2022, the recoverable amount for an asset or a CGU is the higher than its book value. Therefore, the Company did not recognize any impairment loss on intangible assets.

The Company's intangible assets mentioned above were not pledged as collateral.

(8) Short-term borrowings

| | December 31, 2023 | December 31, 2022 |
|-------------------------|------------------------------|------------------------------|
| Unsecured bank loans | <u>\$</u> <u>34,170</u> | <u>66,019</u> |
| Unused credit lines | <u>\$</u> <u>26,834</u> | <u>43,981</u> |
| Range of interest rates | <u>2.21%~2.95%</u> | <u>1.95%~2.70%</u> |

(9) Lease liabilities

The carry amounts of lease liabilities were as follows:

| | December 31, 2023 | December 31, 2022 |
|-------------|------------------------------|------------------------------|
| Current | <u>\$</u> <u>7,354</u> | <u>10,033</u> |
| Non-current | <u>\$</u> <u>1,593</u> | <u>8,747</u> |

For the maturity analysis, please refer to note 6(17) of the financial instruments.

The amounts recognized in profit or loss were as follows:

| | For the year ended December 31, 2023 | 2022 |
|-------------------------------|---|-------------|
| Interest on lease liabilities | <u>\$</u> <u>228</u> | <u>244</u> |

The amounts recognized in the statement of cash flows by the Company were as follows:

| | For the years ended December 31, 2023 | 2022 |
|-------------------------------|--|---------------|
| Total cash outflow for leases | <u>\$</u> <u>11,253</u> | <u>10,983</u> |

Information of lease

The Company leases buildings, parking space and store house for its office space, staff parking area and store the machine, with the leases terms that typically run for a period of 1 to 5 years.

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(10) Employee benefit

A. Defined benefit plans

The present value of the defined benefit obligation and the fair value adjustments of the plan assets for the Company were as follows:

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|------------------------------|
| Present value of the defined benefit obligations | \$ - | - |
| Fair value of plan assets | - | 8,490 |
| Net defined benefit assets | <u><u>\$ -</u></u> | <u><u>8,490</u></u> |

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

(a) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds). Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$0 as of December 31, 2023. For information on the utilization of the labor pension fund assets including the asset allocation and yield rate of the fund, please refer to the website of the Bureau of Labor Funds.

In accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, 3S applied for a clearance on the remaining years of service of its employees to the competent authority, who approved its application in November and December of the same year. As of December 31, 2023, there were no employees belonging to the old labor pension plan.

The retirement reserve check for the settlement account received by 3S in May 2023 resulted in the reduction of its defined benefit retirement obligation by \$8,490 thousands, with its income distribution totaling \$198 thousands, recognized as "other income" in its consolidated statements of comprehensive income.

(b) Movements in present value of the defined benefit obligation

The movements in present value of the defined benefit obligation of the Company for the years ended December 31, 2023 and 2022 were as follows:

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| | For the years ended December 31, | |
|---|---|-----------------|
| | 2023 | 2022 |
| Defined benefit obligation as of January 1 | \$ - | (11,447) |
| Current service costs and interest | - | (54) |
| Remeasurements of the net defined benefit assets | | |
| - Actuarial loss (gain) arising from experience adjustments | - | 2,975 |
| Benefit paid | - | 8,526 |
| Defined benefit obligation as of December 31 | <u><u>\$ -</u></u> | <u><u>-</u></u> |

(c) Movements in fair value of the defined benefit plan assets

The movements in fair value of the defined benefit plan assets of the Company for the years ended December 31, 2023 and 2022 were as follows:

| | For the years ended December 31, | |
|--|---|---------------------|
| | 2023 | 2022 |
| Fair value of plan assets as of January 1 | \$ 8,490 | 15,652 |
| Interest income | - | 73 |
| Remeasurements of the net defined benefit assets | | |
| - Return on plan assets (excluding current interest) | - | 1,291 |
| Benefit paid | - | (8,526) |
| Bank of Taiwan labor pension reserve account | (8,490) | - |
| Fair value of plan assets as of December 31 | <u><u>\$ -</u></u> | <u><u>8,490</u></u> |

(d) Expenses (benefit) recognized in profit or loss

The Company's expenses recognized in profit or losses for the years ended December 31, 2023 and 2022, were as follows:

| | For the years end December 31, | |
|--|---------------------------------------|--------------------|
| | 2023 | 2022 |
| Net interest on the net defined benefit assets | <u><u>\$ -</u></u> | <u><u>(19)</u></u> |

(e) Remeasurements of the net defined benefit assets recognized in other comprehensive income

The Company's remeasurements of the net defined benefit assets recognized as accumulated in other comprehensive income for the years ended December 31, 2023 and 2022 were as follows:

| | For the years end December 31, | |
|-----------------------------------|---------------------------------------|-------------|
| | 2023 | 2022 |
| Cumulative amount as of January 1 | \$ 10,041 | 5,776 |
| Recognized during the period | - | 4,265 |
| Clearance account | <u>(10,041)</u> | <u>-</u> |

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Cumulative amount as of December 31 \$ - 10,041

(f) Actuarial assumptions

The following are the Company's significant actuarial assumptions of the present value of the defined benefit obligation as of the reporting date:

| | December 31, 2023 | December 31, 2022 |
|-------------------------|------------------------------|------------------------------|
| Discount rate | - % | 1.4019% |
| Future salary increases | - % | 2.0000% |

The Company has been approved by the Bureau of Labor Funds to temporarily cease its contribution to the labor fund starting October 2014. The pension account was settled in May 2023.

B. Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance, Ministry of Labor (hereinafter referred to as the Bureau of Labor Insurance) in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The Company's pension costs under the defined contribution method were \$6,543 and \$7,036 for the years ended December 31, 2023 and 2022, respectively.

Payment was made to the Bureau of Labor Insurance.

(11) Income tax

A. The amount income tax (benefit) expense were as follows:

The amount income tax (benefit) expense for the years ended December 31, 2023 and 2022 were as follows:

| | For the years ended December 31, 2023 | 2022 |
|---|--|---------------|
| Deferred tax expense | | |
| Origination and reversal of temporary differences | \$ (1,718) | 29,865 |
| Income tax (benefit) expense | <u>\$ (1,718)</u> | <u>29,865</u> |

The amount of tax expense recognized in other comprehensive income for the years ended December 31, 2023 and 2022 was as follows:

| | For the years ended December 31, 2023 | 2022 |
|---|--|-------------|
| Items that will not be reclassified subsequently to profit or | | |

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loss:

| | | |
|---|-------------|------------|
| Remeasurements of the defined benefit plans | \$ <u>-</u> | <u>853</u> |
|---|-------------|------------|

The reconciliation of income tax (benefit) expense and loss before tax for the years ended December 31, 2023 and 2022, is as follows:

| | For the years ended December 31, | |
|--|---|---------------|
| | 2023 | 2022 |
| Loss before tax | \$ (221,733) | (126,694) |
| Income tax using the the Company's domestic tax rate | (44,347) | (25,339) |
| Recognized domestic investment losses under the equity methods | - | 15 |
| Tax-exempt income | - | (1) |
| Fictional income in accordance with tax laws | 1,698 | - |
| Expenses that are not deductible for tax purposes | 6 | - |
| Changes in unrecognized tax losses | 37,852 | 29,560 |
| Change in unrecognized deductible temporary differences | 3,073 | 25,630 |
| | \$ (1,718) | 29,865 |

B. Deferred income tax assets and liabilities

(a) Deferred tax assets have not been recognized in respect of the following items:

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|------------------------------|
| Tax effect of deductible Temporary Differences | \$ 28,766 | 25,693 |
| Tax losses | 213,187 | 185,816 |
| | \$ 241,953 | 211,509 |

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

The deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

As of December 31, 2023, the unused operating loss carry forwards were as described below:

| Year loss occurred | Unused operating loss Carry forwards | Expiration year |
|---------------------------|---|------------------------|
| 2014 (assessed) | \$ 125,006 | 2024 |
| 2015 (assessed) | 195,249 | 2025 |
| 2016 (assessed) | 37,349 | 2026 |

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| | | |
|------------------|----------------------------|------|
| 2017 (assessed) | 70,214 | 2027 |
| 2018 (assessed) | 22,429 | 2028 |
| 2019 (assessed) | 110,711 | 2029 |
| 2020 (assessed) | 138,247 | 2030 |
| 2021 (assessed) | 20,024 | 2031 |
| 2022 (filed) | 148,864 | 2032 |
| 2023 (estimated) | 197,844 | 2033 |
| | <u><u>\$ 1,065,937</u></u> | |

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2023 and 2022 were as follows:

Deferred tax assets:

| | January 1, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2023 |
|--|-------------------------|--|--|----------------------|--|--|----------------------|
| Provision for inventory devaluation loss | \$ 29,823 | (29,823) | - | - | - | - | - |
| Others | 37 | (37) | - | - | - | - | - |
| | <u><u>\$ 29,860</u></u> | <u><u>(29,860)</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |

Deferred tax liabilities:

| | January 1, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2022 | Recogni zed in profit or loss | Recogni zed in other compreh en-sive income | December 31, 2023 |
|-----------------------|----------------------|--|--|----------------------|--|--|----------------------|
| Defined benefit plans | <u><u>\$ 861</u></u> | <u><u>4</u></u> | <u><u>853</u></u> | <u><u>1,718</u></u> | <u><u>(1,718)</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |

C. the Company's income tax returns had been assessed by the tax authorities through 2021.

(12) Capital and other equity interest

As of December 31, 2023 and 2022, the authorized capital are both \$1,200,000 according to the Company's articles of Incorporation (Among the authorized capital, the \$100,000 thousand is used for the issuance of employee stock option certificates). The paid-in capital amounted to \$569,659 and \$746,877 thousand, respectively, and with par value of \$10 per share.

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The Company's outstanding capital reconciliation (expressed in thousands of stocks):

| | Common stocks | |
|--|---------------------------|----------------------|
| | For the year ended | |
| | December 31, | |
| | 2023 | 2022 |
| Number of outstanding capitals on January 1 | 74,688 | 74,688 |
| Add: capital increase | 7,200 | - |
| Deduct: capital reduction to offset accumulated deficits | (24,922) | - |
| Number of outstanding capitals on December 31 | <u>56,966</u> | <u>74,688</u> |

A. Common stock

(a) First private placement of common stock in 2008

In order to appeal to strategic investors for the purpose of strengthening the Company's stockholder structure and improving competitiveness, on August 8, 2008, based on the resolution of a special stockholders' meeting, the Board of Directors approved the proposal to raise \$100,205 through private placement of 5,726 thousand common stock at a premium price of \$17.5 dollars per share. The premium amounted to \$42,945 and was recognized as capital surplus—additional paid-in capital. The effective date of the capital increase was August 25, 2008, and the required registration process was completed on September 8, 2008.

(b) First private placement of common stock in 2013

In order to appeal to strategic investors for the purpose of strengthening the Company's stockholder structure and improving competitiveness, on June 4, 2013, based on the resolution of a special stockholders' meeting, the Board of Directors approved the proposal, to raise \$144,000 through private placement of 7,500 thousand common stock at a premium price of \$19.2 dollars per share on November 13, 2013. The premium amounted to \$69,000 and was recognized as capital surplus—additional paid-in capital. The effective date of the capital increase was November 27, 2013, and the required registration process was completed on December 25, 2013.

Except for the restriction on trading as required by the Securities and Exchange Act and the requirement for a public offering could only be made three years after the issuance date whenever the Company meets the profitability requirement announced by the Taipei Exchange in Taiwan, the rights and obligations of participants in this private placement are identical to those of holders of current outstanding common stock. As of the report date, the abovementioned restriction had not yet been lifted.

(c) First private placement of common stock in 2023

In order to appeal to strategic investors, on May 16, 2023, based on the resolution of a special stockholders' meeting, the Board of Directors approved the proposal, to raise \$148,464 through private placement of 7,200 thousand common stock at a premium price of \$20.62 dollars per share on November 2, 2023. The premium amounted to \$76,464 and was recognized as capital surplus—additional paid in capital. The effective date of the capital

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increase was November 17, 2023, and the required registration process was completed on December 21, 2023. Except for the restriction on trading as required by the Securities and Exchange Act and the requirement for a public offering could only be made three years after the issuance date whenever the Company meets the profitability requirement announced by the Taipei Exchange in Taiwan, the rights and obligations of participants in this private placement are identical to those of holders of current outstanding common stock.

In order to improve the financial structure of the Company, a resolution was passed during the stockholders' meeting held on May 16, 2023 for the capital reduction of \$249,218 to compensate the deficit, the capital reduction ratio is 33%. The remaining balance after the reduction amounted to \$497,659. The capital reduction has been approved by the FSC on the June 14, 2023, and the date of capital reduction set on June 15, 2023. The relevant statutory registration procedures had already been completed on July 12, 2023.

B. Capital surplus

The Company's capital surplus was as follows:

| | December 31, 2023 | December 31, 2022 |
|------------------|------------------------------|------------------------------|
| Capital increase | \$ 76,464 | - |

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

C. Retained earnings

(a) Legal reserve

When a company incurs no loss, it may distribute the amount of the legal reserve that exceeds 25% of issued common stock either by capitalizing its legal reserve and distributing the new shares as stock dividend to its original stockholders in proportion to the number of shares held by each of them or by distributing a cash dividend.

(b) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal the current period total net reduction of other stockholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes

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to other stockholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other stockholders' equity shall qualify for additional distributions.

(c) Distribution of earnings/deficit compensation

The Company's articles of incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the remaining balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Special reserve may be appropriated for operations or to meet regulations. The remaining earnings, if any, may be appropriated according to the proposal presented in the annual stockholders' meeting by the Board of Directors.

In consideration of financial planning, distribution of profits shall be appropriated by means of stock dividends or cash dividends, or both. The cash dividends should not be lower than 10% of the total dividends.

A resolution was approved during the stockholders' meeting held on May 16, 2023 for 3S to use its the capital surplus to offset its accumulated deficits in 2022 at the amount of \$249,218. A resolution was approved during the stockholder' meeting held on June 21, 2022 for 3S to use its the capital surplus to offset its accumulated deficits in 2021 at the amount of \$176,995. The deficit compensation mentioned above were consistent with the decisions made by Board of Directors. The information will be available on the Market Observation Post System website.

The deficit compensation for 2023 was presented for a resolution in the Board of Directors' meeting on February 22, 2024, which are then to be approved in annual stockholders' meeting. The information will be available on the Market Observation Post System website.

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(13) Earnings per share

| | For the years ended December 31, | |
|---|---|------------------|
| | 2023 | 2022 |
| Basic and diluted earnings per share: | | |
| Net loss attributable to the Company's stockholders | <u>\$ (220,015)</u> | <u>(156,559)</u> |
| Weighted average common stocks outstanding (thousand shares) | <u>50,654</u> | <u>74,688</u> |
| Basic and diluted EPS (TWD) | <u>\$ (4.34)</u> | <u>(2.10)</u> |
| Basic and diluted EPS-retroactive adjustment (TWD) | | <u>\$ (3.15)</u> |

The deficit compensation has been retroactively adjusted when calculating the EPS, with the date of capital reduction set on June 15, 2023. The changes in basic and diluted EPS due to retroactive adjustment for 2022 were as follow:

| | For the year ended December 31, | |
|---|--|---|
| | 2022 | |
| | Before retroactive adjustment | After retroactive adjustment |
| Net loss attributable to 3S's stockholders | <u>\$ (156,559)</u> | <u>(156,559)</u> |
| Weighted average common stocks outstanding (thousand shares) | <u>74,688</u> | <u>49,766</u> |
| Basic and diluted EPS (TWD) | <u>\$ (2.10)</u> | <u>(3.15)</u> |

Since the Company incurred a net loss for the years ended December 31, 2023 and 2022, there were no dilutive potential ordinary shares for the period.

(14) Revenue from contracts with customers

| | For the years ended December 31, | |
|------------------------------|---|----------------|
| | 2023 | 2022 |
| Primary geographical markets | | |
| America | \$ 126,231 | 211,610 |
| China | 80,185 | 56,658 |
| Taiwan | 48,758 | 40,646 |
| North-east Asia | 20,467 | 88,071 |
| Others | - | 5,552 |
| | <u>\$ 275,641</u> | <u>402,537</u> |
| Major products | | |
| Revenue from IC | \$ 238,101 | 386,911 |
| Technical Service Income | 37,540 | 15,626 |
| | <u>\$ 275,641</u> | <u>402,537</u> |

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(15) Compensation of employees and directors

According to the Company's articles of incorporation, the Company's annual net income before tax, after offsetting any accumulated deficit, no less than 10% of the remainder shall be appropriated as employee compensation, and no more than 2% of the remainder shall be appropriated as compensation to directors. The compensation of employee in the form of stock bonuses may also apply to employees of the affiliated companies. The Board of Directors is authorized to set out related terms and conditions. The remuneration to independent directors of the Company are distributed on a monthly fixed term and excluded from the above-mentioned distribution.

Because the Company incurred a net loss for the years ended December 31, 2023 and 2022 compensation to employees and directors were not accrued.

If there are any subsequent adjustments to the actual compensation amounts after the annual stockholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

For related information about the the Company's compensation to employees and directors will be available at the Market Observation Post System website.

(16) Non-operating income and expenses

A. Interest income

| | For the years ended December 31, | |
|------------------------------------|---|-------------|
| | 2023 | 2022 |
| Interest income from bank deposits | \$ 726 | 525 |
| Other interest income | 40 | 36 |
| | \$ 766 | 561 |

B. Other gains and losses

| | For the years ended December 31, | |
|--|---|----------------|
| | 2023 | 2022 |
| Gain on disposals of property, plant and equipment | \$ 285 | 1,680 |
| Recognition of impairment losses on non-financial assets | (14,658) | (12,819) |
| Foreign exchange gains (losses), net | (269) | 4,278 |
| Others | 1,878 | 1,405 |
| | \$ (12,764) | (5,456) |

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C. Finance costs

| | For the years ended December 31, | |
|--|---|-------------------|
| | 2023 | 2022 |
| Interest expense — short-term borrowings and other | \$ 1,552 | 423 |
| Interest expense — lease liabilities | 228 | 244 |
| | <u>\$ 1,780</u> | <u>667</u> |

(17) Financial instruments

A. Credit risk

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

The Company's potential credit risk is derived primarily from cash and cash equivalents and receivable (including accounts receivable and receivables from related parties). The Company maintains its cash and cash equivalents in various creditworthy financial institutions. The Company monitors its exposure with these financial institutions; therefore, the Company considers that there is no concentration of credit risk in regard to cash and cash equivalents.

The Company's sales to individual clients constituting over 10% of total sales revenue for the years ended December 31, 2023 and 2022, were 59% and 71%, respectively, of the total sales revenues. To reduce the concentration of credit risk, the Company continuously evaluates the credit status of its customers and the collectability of accounts receivable, and provides for its ECL. It is management's belief that such concentration of credit risk is under control. For the details of aging and ECL, please refer to note 6(2).

No impairment loss was recognized for the years ended December 31, 2023 and 2022. All of these financial assets are considered to have low risk and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(6).

B. Liquidity risk

The following are the contractual maturities of financial liabilities (including estimated interest expense):

| | Carrying amount | Contractual cash flows | Within 1 years | 1~5 years |
|--------------------------|----------------------------|-----------------------------------|---------------------------|------------------|
| December 31, 2023 | | | | |

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Non-derivative financial liabilities

| | | | | | |
|---|-----------|---------------|---------------|---------------|--------------|
| Short-terms borrowing | \$ | 34,170 | 34,424 | 34,424 | - |
| Accounts payable | | 1,282 | 1,282 | 1,282 | - |
| Accrued payroll and bonus | | 13,120 | 13,120 | 13,120 | - |
| Other accrued expenses | | 14,886 | 14,886 | 14,886 | - |
| Lease liabilities (included in current and non-current) | | 8,947 | 9,014 | 7,416 | 1,598 |
| Guarantee deposits received | | 618 | 618 | - | 618 |
| | \$ | 73,023 | 73,344 | 71,128 | 2,216 |

| | | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within 1 years</u> | <u>1~5 years</u> |
|---|-----------|----------------------------|-----------------------------------|---------------------------|------------------|
| December 31, 2022 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$ | 66,019 | 66,508 | 66,508 | - |
| Accounts payable | | 1,936 | 1,936 | 1,936 | - |
| Accrued payroll and bonus | | 17,122 | 17,122 | 17,122 | - |
| Other accrued expenses | | 19,614 | 19,614 | 19,614 | - |
| Lease liabilities (included in current and non-current) | | 18,780 | 19,063 | 10,250 | 8,813 |
| Guarantee deposits received | | 618 | 618 | - | 618 |
| | \$ | 124,089 | 124,861 | 115,430 | 9,431 |

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

C. Currency risk

(a) Exposure to currency risk

The Company's financial assets and liabilities exposed to exchange rate risk were as follows:

| | December 31, 2023 | | | | December 31, 2022 | | |
|------------------------------|---------------------|------------------|-------|--------|---------------------|------------------|--------|
| | Foreign currency | Exchange rate | | TWD | Foreign currency | Exchange rate | TWD |
| <u>Financial assets</u> | | | | | | | |
| <u>Monetary items</u> | | | | | | | |
| USD | \$ | 1,076 | 30.68 | 33,012 | 1,851 | 30.72 | 56,863 |
| <u>Financial liabilities</u> | | | | | | | |
| <u>Monetary items</u> | | | | | | | |
| USD | \$ | 175 | 30.68 | 5,369 | 151 | 30.72 | 4,639 |

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, receivable (including receivables from related parties), accounts payable and other payables accounts that are denominated in foreign currency.

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A 1% depreciation or appreciation of the TWD against the USD as of December 31, 2023 and 2022, would have decreased or increased the net loss by \$221 and \$418, respectively. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.

The Company's realized and unrealized foreign exchange gains (losses) on the foreign currency monetary items using the functional currency were as follows:

| | 2023 | | 2022 | |
|-----|--|---------------------|--|---------------------|
| | Foreign exchange gains (losses) | Average rate | Foreign exchange gains (losses) | Average rate |
| USD | <u>\$ (269)</u> | <u>-</u> | <u>4,278</u> | <u>-</u> |

D. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The Company's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, excluding financial instruments whose fair values approximate the carrying amounts and lease liabilities) were as follows:

| | | December 31, 2023 | | | | |
|--|----|----------------------------|-------------------|-----------------|-----------------|-----------------|
| | | Carrying Amount | Fair value | | | Total |
| | | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at amortized cost | | | | | | |
| Cash and cash equivalents | \$ | 141,727 | - | - | - | - |
| Accounts receivable (including receivables from related parties) | | 26,000 | - | - | - | - |
| Refundable deposits | | 6,810 | - | - | - | - |
| | | <u>\$ 174,537</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial assets measured at amortized cost | | | | | | |
| Short-term borrowings | \$ | 34,170 | - | - | - | - |
| Accounts payable | | 1,282 | - | - | - | - |
| Accrued payroll and bonus | | 13,120 | - | - | - | - |
| Other accrued expenses | | 14,886 | - | - | - | - |
| Lease liabilities (included in current and non-current) | | 8,947 | - | - | - | - |
| Guarantee deposits received | | 618 | - | - | - | - |
| | | <u>\$ 73,023</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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| | | December 31, 2022 | | | | |
|--|----|--------------------|------------|----------|----------|----------|
| | | Carrying Amount | Fair value | | | Total |
| | | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at amortized cost | | | | | | |
| Cash and cash equivalents | \$ | 64,616 | - | - | - | - |
| Accounts receivable (including receivables from related parties) | | 54,175 | - | - | - | - |
| Refundable deposits | | 6,779 | - | - | - | - |
| | | <u>\$ 125,570</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial assets measured at amortized cost | | | | | | |
| Short-term borrowings | \$ | 66,019 | - | - | - | - |
| Accounts payable | | 1,936 | - | - | - | - |
| Accrued payroll and bonus | | 17,122 | - | - | - | - |
| Other accrued expenses | | 19,614 | - | - | - | - |
| Lease liabilities (included in current and non-current) | | 18,780 | - | - | - | - |
| Guarantee deposits received | | 618 | - | - | - | - |
| | | <u>\$ 124,089</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(b) Valuation techniques for financial instruments not measured at fair value

Fair value measurement for financial assets and liabilities measured at amortized cost will be based on the latest quoted price and agreed-upon price if these prices are available in the active markets. When market value is unavailable, the fair value of financial liabilities is evaluated based on the discounted cash flow of the financial assets and liabilities.

Due to the refundable deposits and guarantee deposits received that do not have explicit expiration dates, their fair value is evaluated based on their carrying amounts.

(18) Financial risk management

A. Overview

The Company is exposed to the following risks due to usage of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies, and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these parent-company-only financial statements.

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B. Objectives and policies for managing risk

The core business departments are responsible for the management of operational risk. The Company has established appropriate procedures based on the nature of business. Before entering into transactions involving risk, the approval policy must be carried out based on related procedures. Significant contracts are approved by the general counsel, and the potential risks of operations are assessed by the Internal Audit Office as a reference for drafting its annual audit plan.

The Company regularly monitors risks faced by the Company in accordance with the Company's risk management policies and procedures to reflect changes in market conditions and the Company's activities. There are three monitoring mechanisms:

- (a) The department or employee responsible establishes a risk management mechanism that can effectively recognize, evaluate, supervise and control risk.
- (b) In addition to the risks approved by the related department or team, the general counsel assists the president to seek improvements of laws and risks.
- (c) The Internal Audit Office monitors risk, as overseen by the directors.

C. Credit risk

The credit risk information on cash and cash equivalents and receivables is disclosed in Note 6(17). According to the Company's policy, the Company could only provide financial guarantees for the entities in which it has business relationship with and demand short-term financing support from the Company. As of December 31, 2023 and 2022, the Company did not provide any financial guarantees for any such entities.

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity risk of the Company is monitored through its corporate treasury department which tracks the development of the actual cash flow position for the Company and uses input from a number of sources in order to forecast the overall liquidity position both on a short- and long-term basis. Corporate treasury invests

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surplus cash in money market deposits and short-term investments with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due. The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. As of December 31, 2023 and 2022, the Company has unused short-term bank facilities of \$26,834 and \$43,981, respectively.

E. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors and are subject to the monitor from internal audit office. Generally the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

The Company is exposed to currency risks on foreign currency denominated financial assets and liabilities arising from its operating, financing and investing activities.

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company's entities, primarily the TWD. The currencies used in these transactions are denominated in TWD, USD, and JPY.

In respect of the valuation of other monetary assets and liabilities denominated in foreign currencies, the Company hedges 50 percent of its net exposure (net cash flows) expected in three months, subject to the situation of which the rate may be adjusted to an acceptable level by buying or selling foreign currencies at spot rates, when there is necessary to address short-term imbalances. The Company uses forward exchange contracts to hedge, with a maturity of less than three months from the reporting date, and therefore, hedge accounting is not applied in these circumstances.

(19) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market

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confidence and to sustain future development of the business. Capital consists of common stock, capital surplus, retained earnings, and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to common stockholders.

The Company's approach to capital management during the year ended December 31, 2023, was the same as that in 2022.

| | December 31, 2023 | December 31, 2022 |
|-----------------------|----------------------|----------------------|
| Total liabilities | <u>\$ 82,827</u> | <u>132,071</u> |
| Total equity | <u>\$ 426,108</u> | <u>497,659</u> |
| Debt-to-capital ratio | <u>19.44%</u> | <u>26.54%</u> |

As of December 31, 2023, the debt-to-adjusted-capital ratio had decreased due to capital increase, which used to repay bank borrowings for the period.

(20) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

| | Short-term borrowings | Lease liabilities | Guarantee deposits received | Total liabilities from financing activities |
|--|--------------------------|----------------------|-----------------------------------|---|
| Balance as of January 1, 2023 | \$ 66,019 | 18,780 | 618 | 85,417 |
| Cash flows: | | | | |
| Proceeds from borrowings | 184,605 | - | - | 184,605 |
| Repayments of borrowings | (216,454) | - | - | (216,454) |
| Payment of lease liabilities | - | (11,025) | - | (11,025) |
| Interest paid | - | (228) | - | (228) |
| Non-cash flow: | | | | |
| Increase in lease liabilities | - | 1,192 | - | 1,192 |
| Interest expense | - | 228 | - | 228 |
| Balance as of December 31, 2023 | <u>\$ 34,170</u> | <u>8,947</u> | <u>618</u> | <u>43,735</u> |
| Balance as of January 1, 2022 | \$ - | 15,001 | 618 | 15,619 |
| Cash flows: | | | | |
| Proceeds from borrowings | 141,019 | - | - | 141,019 |
| Repayments of borrowings | (75,000) | - | - | (75,000) |
| Payment of lease liabilities | - | (10,739) | - | (10,739) |
| Interest paid | - | (244) | - | (244) |
| Decrease in guarantee deposits received | - | - | - | - |
| Non-cash flow: | | | | |
| Increase in lease liabilities | - | 14,518 | - | 14,518 |

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| | | | | |
|---------------------------------|-------------------------|----------------------|-------------------|----------------------|
| Interest expense | - | 244 | - | 244 |
| Balance as of December 31, 2022 | <u><u>\$ 66,019</u></u> | <u><u>18,780</u></u> | <u><u>618</u></u> | <u><u>85,417</u></u> |

7. Related-Party Transactions

(1) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the parent-company-only financial statements.

| Name of related parties | Relationship with the Company |
|--|---|
| Kingston Digital International Ltd (KDIL) | The subsidiary of Kingston Technology Company |
| KIOXIA Corporation (KIC) | A member of the board of 3S |
| ViCHIP Corporation Limited (ViCHIP) (note) | The subsidiary of the Company |

Note: 3S liquidated its subsidiary, Vichip, on November 3, 2022. All related statutory registration procedures had already been completed on October 24, 2023.

(2) Significant transactions with related parties

A. Sales and service revenue from related parties

| Related Party Category | For the years ended December 31, | |
|------------------------|----------------------------------|-----------------------|
| | 2023 | 2022 |
| Other related-parties: | | |
| KDIL | \$ 126,231 | 211,610 |
| KIC | 10,710 | 72,364 |
| Subsidiary | - | (37) |
| | <u><u>\$ 136,941</u></u> | <u><u>283,937</u></u> |

The collection terms for sales to related parties will be 30 to 45 days or after the month-end; the prices of the products sold to related parties, which were determined by the products' specifications and the situation regarding market supply and demand, and there was no significant difference as compared to those of the other parties.

B. Accounts receivable from related parties

| Related Party Category | December 31, | December 31, |
|------------------------|-------------------------|----------------------|
| | 2023 | 2022 |
| Other related-parties: | | |
| KDIL | \$ 10,040 | 40,635 |
| KIC | 2,071 | 8 |
| | <u><u>\$ 12,111</u></u> | <u><u>40,643</u></u> |

(3) Transactions with key management personnel

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Key management personnel compensation comprised:

| | For the years ended December 31, | |
|------------------------------|---|---------------|
| | 2023 | 2022 |
| Short-term employee benefits | \$ 10,293 | 12,805 |
| Post-employment benefits | 1,762 | 324 |
| | \$ 12,055 | 13,129 |

8. Pledged Assets

The carrying values of the Company's pledged assets are as follows:

| Assets | Purpose of Pledged | December 31, 2023 | December 31, 2022 |
|--|---------------------------|------------------------------|------------------------------|
| Time deposits (recorded in other current assets) | Customs duty guarantee | \$ 900 | 900 |
| Time deposits (recorded in other current assets) | Inventory guarantee | 10,000 | - |
| Refundable deposits | Warranty guarantee | 3,976 | 4,000 |
| | | \$ 14,876 | 4,900 |

9. Commitments and Contingencies

The Company has obtained licenses to use other companies' technology, which requires a monthly royalty payment based on its sales volume. The Company must also guarantee the minimum production capacity required by some outsourcing factories.

10. Losses Due to Major Disasters: None.

11. Subsequent Events: None.

12. Others

- (1) The Company incurred a net loss amounting to \$220,015 as of December 31, 2023. The Company intends to adopt the following countermeasures to maintain its operation:

A. Marketing plans

- (a) Continue optimizing customer and product portfolios in order to provide higher value added and profitable services.
- (b) Continue to enhance operation efficiency through improving material cost management and production efficiency to maximize profit.

B. Financial structure improvement plans

- (a) Enforce inventory management, analyze the sales status and adjust inventory levels when necessary, and close out the slow-moving inventory in order to reduce the stock risk and capital lying idle.

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- (b) Propose to dispose the assets in order to enrich working capital.
- (c) Control the labor expenditure, as well as review and improve the daily expenses of the Company in order to avoid unnecessary expenses at all costs.
- (2) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

| By function | 2023 | | | 2022 | | |
|----------------------------|-------------------------------|----------------------------------|---------|-------------------------------|----------------------------------|---------|
| | Classified as Operating Costs | Classified as Operating Expenses | Total | Classified as Operating Costs | Classified as Operating Expenses | Total |
| By item | | | | | | |
| Employee benefits | | | | | | |
| Salary | 14,530 | 129,600 | 144,130 | 3,974 | 144,020 | 147,994 |
| Labor and health insurance | 415 | 10,847 | 11,262 | 356 | 11,407 | 11,763 |
| Pension | 220 | 6,323 | 6,543 | 188 | 6,829 | 7,017 |
| Remuneration of directors | - | 1,236 | 1,236 | - | 1,212 | 1,212 |
| Others | 472 | 5,188 | 5,660 | 233 | 6,238 | 6,471 |
| Depreciation | 9,462 | 23,130 | 32,592 | 15,000 | 21,580 | 36,580 |
| Amortization | - | 11,050 | 11,050 | - | 13,072 | 13,072 |

The number of employees and employee benefits for the years ended December 31, 2023 and 2022, were as follows:

| | For the years December 31, | |
|---|----------------------------|--------------|
| | 2023 | 2022 |
| The number of employees | <u>125</u> | <u>136</u> |
| The number of directors who were not holding a position of employee | <u>5</u> | <u>5</u> |
| The Average of employee benefits | <u>\$ 1,397</u> | <u>1,322</u> |
| The Average of Salaries | <u>\$ 1,201</u> | <u>1,130</u> |
| The Average of salary adjust rate | <u>6%</u> | |
| The remuneration to supervisors (note) | <u>\$ -</u> | <u>-</u> |

Note: The Company set up an audit committee in place of a supervisor. Therefore, no remuneration to supervisor was accrued.

The information of the Company's salaries and remunerations policy (including director, executive officers and employees) is as follow:

The Company inspects, and compares with, its peers or talent competitors annually to ensure the competitiveness of its employee remuneration, so as to achieve the purpose of seeking, motivating and retaining talents. The Company's remuneration is divided into two parts: fixed and variable. The

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manager's performance target incentive reward is set, and consequently, it seeks to fully reflect the performance of the individual and the team.

The procedures of the Company's remuneration to directors and managers are determined using the Company's board performance evaluation method and employee performance appraisal. In addition to referring to the Company's operating performance, future risks, development strategies and industrial trends, the Company also considers the individual's contribution to the Company's performance to give reasonable remuneration. The performance evaluation and distribution of remuneration are reviewed and approved by the remuneration committee and the board of directors in accordance with the regulations. The Company will review the remuneration distribution policy in a timely manner according to the overall environment and business strategy, so as to take into account the Company's sustainable operation and the interests of its stakeholders. The remuneration of independent directors is fixed and is paid on a monthly basis.

13. Other disclosures:

(1) Information on Significant Transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

- A. Loans to other parties: None
- B. Guarantees and endorsements for other parties: None
- C. Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures): None
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Notes/A |
|--------------|---------------|--------------------------------|-------------------------|---------|-------------------------------------|---------------|---|---------------|----------------|
| | | | Purchase/Sales | Amount | Percentage of Total Purchases/Sales | Payment Terms | Unit Price | Payment Terms | Ending Balance |
| The Company | KDIL | The subsidiary of its director | Sales and miscellaneous | 126,231 | 46% | 30~45 days | Note | 30~45 days | 10, |

Note: The prices of the products sold to related parties, which were determined by the products' specifications and fair market value, have no significant differences as compared to those of the other parties.

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H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None

I. Trading in derivative instruments: None

(2) Information on Investees:

The following is the information on investees for the year ended December 31, 2023 (excluding information on investees in Mainland China):

| Name of Investor | Name of Investee | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2023 | | | Net Income (Losses) of Investee |
|------------------|------------------|----------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---------------------------------|
| | | | | December 31, 2023 | December 31, 2022 | Shares | Percentage of Ownership | Carrying Value | |
| The Company | ViCHIP | Hsin chu | Operating electronic components manufacturing, wholesaling, sales and product design business | - | 52,400 | - | - % | - | - |

Note: The Company liquidated its subsidiary, ViCHIP, on November 3, 2022. All related statutory registration procedures had already been completed on October 24, 2023.

(3) Information on Investment in Mainland China:

A. The names of investees in Mainland China, the main businesses and products, and other information: None

B. Limitation on investment in Mainland China: None

C. Significant transactions: None

Solid State System Co., Ltd.
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(4) Major shareholders:

| Shareholder's Name | Shareholding | Shares | Percentage |
|------------------------------------|---------------------|---------------|-------------------|
| TA YU CHEN | | 3,816,646 | 7.66% |
| Kingston Digital International Ltd | | 3,485,652 | 7.00% |
| KIOXIA Corporation | | 3,375,480 | 6.78% |
| CHIH LIANG TSAO | | 2,782,826 | 5.59% |

Note:

1. The information on major shareholders, which is provided by the Taiwan Depository & Clearing Corporation, summarized the shareholders who held over 5% of the total non physical common stocks and preferred stocks (including treasury stocks) on the last business date of each quarter. The registered non physical stocks may be different from the capital stocks disclosed in the financial statement due to different calculations basis.
2. The Company based on the Board of Directors approved the proposal, to raise capital increase through private placement of 7,200 thousand common stock on November 2, 2023. As of December 31, 2023, common stock has not delivered yet.
3. In the case of the above information, if the shareholder delivers the shares to the trust, the shares will be disclosed as a personal account under the trust account of the principal opened by the trustee. As for the shareholders' declaration of more than 10% of the insider's shareholdings under the Securities and Exchange Act, the shareholders' stocks should be included in their own shareholdings, plus, the shares delivered to the trust, wherein the shareholders have the right of decision on using the trust property. For information on insider's equity declaration, please refer to market observation post system.

14. Segment Information

Please refer to consolidated financial statements for the year ended December 31, 2023.

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Chairman: Jeffrey Lin