

Solid State System Co., Ltd. and Subsidiaries

Consolidated Financial Statements

With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2020 and 2019

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.



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KPMG

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Solid State System Co., Ltd. ("3S") and its subsidiaries (together referred to as the "Company") as of September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three and nine months ended September 30, 2020 and 2019, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. The 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 International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2020 and 2019, and of its consolidated financial performance for the three and nine months ended September 30, 2020 and 2019, as well as its consolidated cash flows for the nine months ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)

November 5, 2020

Notes to Readers

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

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of September 30, 2020 and 2019

Solid State System Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

September 30, 2020, December 31 and September 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets	September 30, 2020		December 31, 2019		September 30, 2019		Liabilities and Equity	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets:							Current liabilities:						
Cash and cash equivalents (note 6(1))	\$ 113,477	19	59,573	11	61,748	10	Short-term borrowings (notes 6(8) and 8)	\$ 41,879	7	43,000	8	84,956	14
Current contract assets (note 6(14))	1,460	-	4,347	1	9,473	1	Current contract liabilities (note 6(14))	804	-	1,174	-	871	-
Accounts receivable, net (note 6(2))	21,238	3	22,364	4	23,929	4	Accounts payable	46,480	7	16,983	3	14,216	3
Accounts receivable from related parties, net (notes 6(2) and 7)	51,510	9	54,782	10	47,027	8	Accrued payroll and bonus	8,996	2	13,756	2	6,538	1
Inventories (note 6(3))	189,872	32	155,178	27	187,747	31	Other accrued expenses	47,722	8	29,292	5	29,123	5
Other current financial assets (notes 6(4) and 8)	1,695	-	1,943	-	2,102	-	Current lease liabilities (note 6(9))	9,330	2	4,158	1	6,358	1
Other current assets	9,583	2	7,813	1	9,697	2	Other current liabilities	9,592	2	10,080	2	8,919	1
	<u>388,835</u>	<u>65</u>	<u>306,000</u>	<u>54</u>	<u>341,723</u>	<u>56</u>		<u>164,803</u>	<u>28</u>	<u>118,443</u>	<u>21</u>	<u>150,981</u>	<u>25</u>
Non-current assets:							Non-current liabilities:						
Property, plant and equipment (notes 6(5) and 8)	100,356	17	186,218	33	190,483	32	Deferred tax liabilities	249	-	249	-	205	-
Right-of-use assets (note 6(6))	35,388	6	4,126	1	6,321	1	Non-current lease liabilities (note 6(9))	16,598	3	-	-	-	-
Intangible assets (note 6(7))	29,083	5	30,114	5	25,691	4	Guarantee deposits received	927	-	1,050	-	1,050	-
Deferred tax assets	29,860	5	29,860	5	29,860	5	Other non-current liabilities	-	-	-	-	1,115	-
Refundable deposits (note 8)	8,357	2	7,979	1	8,064	1		<u>17,774</u>	<u>3</u>	<u>1,299</u>	<u>-</u>	<u>2,370</u>	<u>-</u>
Net defined benefit asset, non-current	1,150	-	1,150	-	884	-	Total liabilities	<u>182,577</u>	<u>31</u>	<u>119,742</u>	<u>21</u>	<u>153,351</u>	<u>25</u>
Other non-current financial assets	1,935	-	2,945	1	3,325	1	Equity (note 6(12)):						
	<u>206,129</u>	<u>35</u>	<u>262,392</u>	<u>46</u>	<u>264,628</u>	<u>44</u>	Common stock	646,877	108	808,596	142	808,596	133
							Accumulated deficits	(234,490)	(39)	(359,946)	(63)	(355,596)	(58)
Total assets	<u>\$ 594,964</u>	<u>100</u>	<u>568,392</u>	<u>100</u>	<u>606,351</u>	<u>100</u>	Total equity	<u>412,387</u>	<u>69</u>	<u>448,650</u>	<u>79</u>	<u>453,000</u>	<u>75</u>
							Total liabilities and equity	<u>\$ 594,964</u>	<u>100</u>	<u>568,392</u>	<u>100</u>	<u>606,351</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards

Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	For the three months ended September 30,				For the nine months ended September 30,			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenues (notes 6(14) and 7)	\$ 183,298	100	147,827	100	454,086	100	446,846	100
Operating costs (notes 6(3), (9) and 12)	<u>140,377</u>	<u>77</u>	<u>107,519</u>	<u>73</u>	<u>342,287</u>	<u>75</u>	<u>339,955</u>	<u>76</u>
Gross profit	<u>42,921</u>	<u>23</u>	<u>40,308</u>	<u>27</u>	<u>111,799</u>	<u>25</u>	<u>106,891</u>	<u>24</u>
Operating expenses (notes 6(9), 7 and 12) :								
Selling	19,012	10	19,711	14	57,629	13	56,829	13
General and administrative	9,313	5	9,114	6	30,065	6	28,128	6
Research and development	<u>45,634</u>	<u>25</u>	<u>47,559</u>	<u>32</u>	<u>126,416</u>	<u>28</u>	<u>138,092</u>	<u>31</u>
Total operating expenses	<u>73,959</u>	<u>40</u>	<u>76,384</u>	<u>52</u>	<u>214,110</u>	<u>47</u>	<u>223,049</u>	<u>50</u>
Net operating loss	<u>(31,038)</u>	<u>(17)</u>	<u>(36,076)</u>	<u>(25)</u>	<u>(102,311)</u>	<u>(22)</u>	<u>(116,158)</u>	<u>(26)</u>
Non-operating income and expenses (note 6(16)) :								
Interest income	52	-	97	-	215	-	334	-
Other income	-	-	333	-	1,693	-	333	-
Other gains and losses	1,744	1	(353)	-	67,787	15	901	-
Finance costs (note 6(9))	<u>(143)</u>	<u>-</u>	<u>(382)</u>	<u>-</u>	<u>(669)</u>	<u>-</u>	<u>(1,032)</u>	<u>-</u>
Total non-operating income and expenses	<u>1,653</u>	<u>1</u>	<u>(305)</u>	<u>-</u>	<u>69,026</u>	<u>15</u>	<u>536</u>	<u>-</u>
Loss before tax	(29,385)	(16)	(36,381)	(25)	(33,285)	(7)	(115,622)	(26)
Income tax expenses (note 6(11))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,978</u>	<u>1</u>	<u>-</u>	<u>-</u>
Net loss for the period	<u>(29,385)</u>	<u>(16)</u>	<u>(36,381)</u>	<u>(25)</u>	<u>(36,263)</u>	<u>(8)</u>	<u>(115,622)</u>	<u>(26)</u>
Other comprehensive income for the period (after tax)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u><u>\$ (29,385)</u></u>	<u><u>(16)</u></u>	<u><u>(36,381)</u></u>	<u><u>(25)</u></u>	<u><u>(36,263)</u></u>	<u><u>(8)</u></u>	<u><u>(115,622)</u></u>	<u><u>(26)</u></u>
Earnings per share (New Taiwan Dollars) (note 6(13))								
Basic earnings per share	<u><u>\$ (0.45)</u></u>		<u><u>(0.56)</u></u>		<u><u>(0.56)</u></u>		<u><u>(1.79)</u></u>	
Diluted earnings per share	<u><u>\$ (0.45)</u></u>		<u><u>(0.56)</u></u>		<u><u>(0.56)</u></u>		<u><u>(1.79)</u></u>	

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Solid State System Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	<u>Common stock</u>	<u>Accumulated deficits</u>	<u>Total equity</u>
Balance as of January 1, 2019	\$ 808,596	(239,974)	568,622
Net loss for the period	-	(115,622)	(115,622)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(115,622)	(115,622)
Balance as of September 30, 2019	<u>\$ 808,596</u>	<u>(355,596)</u>	<u>453,000</u>
Balance as of January 1, 2020	\$ 808,596	(359,946)	448,650
Net loss for the period	-	(36,263)	(36,263)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(36,263)	(36,263)
Capital reduction to offset accumulated deficits	(161,719)	161,719	-
Balance as of September 30, 2020	<u>\$ 646,877</u>	<u>(234,490)</u>	<u>412,387</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
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Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30,	
	2020	2019
Cash flows from operating activities:		
Loss before tax	\$ (33,285)	(115,622)
Adjustments:		
Adjustments to reconcile (profit) loss:		
Depreciation	30,374	29,826
Amortization	8,732	5,870
Expected credit loss (gain)	(120)	75
Interest expense	669	1,032
Interest income	(215)	(334)
Gain on disposal of property, plant and equipment	(72,451)	-
Loss on sale-leasebacks	10,401	-
Provision for inventory devaluation loss	39,014	36,339
Others	337	888
Total adjustments to reconcile profit (loss)	16,741	73,696
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss, mandatorily measured at fair value	-	45
Accounts receivable	1,246	2,930
Accounts receivable from related parties	3,272	55,416
Inventories	(73,708)	22,326
Other operating assets	3,456	(6,030)
Total changes in operating assets	(65,734)	74,687
Changes in operating liabilities:		
Accounts payable	29,497	(40,581)
Other operating liabilities	11,335	(11,526)
Total changes in operating liabilities	40,832	(52,107)
Total changes in operating assets and liabilities	(24,902)	22,580
Total adjustments	(8,161)	96,276
Cash flows used in operations	(41,446)	(19,346)
Interest received	220	350
Interest paid	(668)	(1,026)
Income taxes refunded	9	-
Income taxes paid	(4,073)	-
Net cash flows used in operating activities	(45,958)	(20,022)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(22,209)	(15,076)
Proceeds from disposal of property, plant and equipment	138,415	-
Increase in refundable deposits	(378)	(112)
Acquisition of intangible assets	(7,948)	(8,898)
Decrease in other current financial assets	-	63,500
Net cash flows from investing activities	107,880	39,414
Cash flows from financing activities:		
Proceeds from borrowings	119,431	133,491
Repayments of borrowings	(120,552)	(119,535)
(Decrease) increase in guarantee deposits received	(123)	1,050
Payment of lease liabilities	(6,774)	(6,549)
Net cash flows (used in) from financing activities	(8,018)	8,457
Net increase in cash and cash equivalents for the period	53,904	27,849
Cash and cash equivalents at beginning of period	59,573	33,899
Cash and cash equivalents at end of period	\$ 113,477	61,748

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
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Solid State System Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2020 and 2019

**(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, Jubei 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 Financial Statements

The consolidated financial statements were reported to the Board of Directors and issue on November 5, 2020.

3. New Standards 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 following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020.

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date per International Accounting Standards Board</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

(Continued)

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

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2021:

New Standards, Interpretations and Amendments	Effective date per International Accounting Standards Board
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	January 1, 2021

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

- (3) The impact of IFRS issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021

The Company is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(Continued)

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

4. Summary of Significant Accounting Policies

(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 guidelines of IAS 34 Interim Financial Reporting (hereinafter referred to as IAS 34) which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and by the IFRSs, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except as described in the following paragraph, the Company’s significant accounting policies are applied consistently with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2019.

(2) Basis of consolidation

The principle of preparation of the consolidated financial statements is consistent with those of the consolidated financial statements for the year ended December 31, 2019. For related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2019.

A. List of subsidiaries in the consolidated financial statements

<u>Name of investor</u>	<u>Subsidiary</u>	<u>Main activities</u>	<u>Percentage of ownership (%)</u>		
			<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
3S	ViCHIP Corporation Limited (ViCHIP)	Operating electronic components manufacturing, wholesaling, sales and product design business	100 %	100 %	100 %

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

(3) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the reporting date of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(Continued)

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

(4) Government grants

The Company recognizes an unconditional government grant related to COVID-19 in profit or loss as other income when the grant becomes receivable.

(5) Income tax

Income tax expense in the financial statements is measured and disclosed in according to paragraph B12 of IAS 34 endorsed by the FSC.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as income tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(6) Lease

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.

5. Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 endorsed by the FSC) 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.

The preparation of the consolidated financial statements, the major sources of accounting judgments, estimations and assumptions of uncertainty are applied consistently with note 5 to the consolidated financial statements for the year ended December 31, 2019.

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

6. Description of Significant Accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to Note 6 of the 2019 annual consolidated financial statements.

(1) Cash and cash equivalents

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand and petty cash	\$ 319	275	343
Checking and savings accounts	72,958	12,798	14,905
Time deposits	40,200	46,500	46,500
	\$ 113,477	59,573	61,748

Refer to note 6(17) for the disclosure of currency risk of the financial assets and liabilities of the Company.

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

	September 30, 2020	December 31, 2019	September 30, 2019	January 1, 2019
Accounts receivable (including receivables from related parties)	\$ 72,829	77,347	71,391	129,737
Less: loss allowance	(81)	(201)	(435)	(360)
	\$ 72,748	77,146	70,956	129,377
Accounts receivable, net	\$ 21,238	22,364	23,929	26,934
Accounts receivable from related parties, net	\$ 51,510	54,782	47,027	102,443

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. The ECL on accounts receivable by reference to past default experience of the customers and credit risk characteristics, as well as 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:

	September 30, 2020		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 72,573	0.102 %	74
Past due 1~89 days	256	2.734 %	7
Total	\$ 72,829		81

(Continued)

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

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 72,122	0.035 %	25
Past due 1~89 days	221	2.715 %	6
Past due 90~180 days	4,916	2.889 %	142
Past due more than 180 days	88	31.818 %	28
Total	\$ 77,347		201
	September 30, 2019		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 58,591	0.053 %	31
Past due 1~89 days	7,622	3.004 %	229
Past due 90~180 days	5,090	2.888 %	147
Past due more than 180 days	88	31.818 %	28
Total	\$ 71,391		435

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

	For the nine months ended September 30,	
	2020	2019
Beginning balance	\$ 201	360
Impairment loss (reversed) recognized	(120)	75
Ending balance	\$ 81	435

(3) Inventories

	September 30, 2020	December 31, 2019	September 30, 2019
Raw materials	\$ 7,841	3,238	8,535
Work in process	140,458	97,874	110,767
Finished goods	41,412	50,266	61,120
Merchandise inventory	161	3,800	7,325
	\$ 189,872	155,178	187,747

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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The details of operating costs were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Cost of goods sold	\$ 128,357	96,806	294,035	300,358
Technical service cost	520	422	4,708	3,258
Inventory devaluation loss	11,500	10,291	39,014	36,339
Unallocated production overheads	-	-	4,530	-
	<u>\$ 140,377</u>	<u>107,519</u>	<u>342,287</u>	<u>339,955</u>

(4) Other current financial assets

	September 30,	December 31,	September 30,
	2020	2019	2019
Pledged deposits	\$ 300	300	300
Others	1,395	1,643	1,802
	<u>\$ 1,695</u>	<u>1,943</u>	<u>2,102</u>

Please refer to note 8 for the details regarding deposit guarantee as of September 30, 2020, December 31 and September 30, 2019.

(5) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office and other equipment	Total
Cost:					
Balance as of January 1, 2020	\$ 34,271	73,851	156,288	17,592	282,002
Additions	-	-	7,993	15,692	23,685
Disposals and write-off	(34,271)	(73,851)	(163)	-	(108,285)
Reclassification	-	-	(2,590)	2,500	(90)
Balance as of September 30, 2020	<u>\$ -</u>	<u>-</u>	<u>161,528</u>	<u>35,784</u>	<u>197,312</u>
Balance as of January 1, 2019	\$ 34,271	73,357	150,208	16,858	274,694
Additions	-	494	13,264	1,318	15,076
Balance as of September 30, 2019	<u>\$ 34,271</u>	<u>73,851</u>	<u>163,472</u>	<u>18,176</u>	<u>289,770</u>

(Continued)

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

	<u>Land</u>	<u>Building</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Accumulated depreciation:					
Balance as of January 1, 2020	\$ -	20,703	66,632	8,449	95,784
Depreciation for the period	-	900	17,083	4,955	22,938
Disposals and write-off	-	(21,603)	(163)	-	(21,766)
Balance as of September 30, 2020	<u>\$ -</u>	<u>-</u>	<u>83,552</u>	<u>13,404</u>	<u>96,956</u>
Balance as of January 1, 2019	\$ -	18,667	53,050	4,330	76,047
Depreciation for the period	-	1,504	18,196	3,540	23,240
Balance as of September 30, 2019	<u>\$ -</u>	<u>20,171</u>	<u>71,246</u>	<u>7,870</u>	<u>99,287</u>
Book value:					
Balance as of January 1, 2020	<u>\$ 34,271</u>	<u>53,148</u>	<u>89,656</u>	<u>9,143</u>	<u>186,218</u>
Balance as of September 30, 2020	<u>\$ -</u>	<u>-</u>	<u>77,976</u>	<u>22,380</u>	<u>100,356</u>
Balance as of January 1, 2019	<u>\$ 34,271</u>	<u>54,690</u>	<u>97,158</u>	<u>12,528</u>	<u>198,647</u>
Balance as of September 30, 2019	<u>\$ 34,271</u>	<u>53,680</u>	<u>92,226</u>	<u>10,306</u>	<u>190,483</u>

Please refer to note 8 for the details regarding facilities guarantee as of December 31 and September 30, 2019.

The Company leased buildings as office under sale and leaseback arrangement in June, 2020. For the related information, please refer to note 6(9).

(6) Right-of-use assets

	<u>Buildings</u>
Cost:	
Balance as of January 1, 2020	\$ 12,907
Additions	38,698
Decreases	(12,907)
Balance as of September 30, 2020	<u>\$ 38,698</u>
Balance as of January 1, 2019	\$ -
Effects of retrospective application	12,907
Balance as of September 30, 2019	<u>\$ 12,907</u>

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

	Buildings
Accumulated depreciation:	
Balance as of January 1, 2020	\$ 8,781
Depreciation for the period	7,436
Decreases	<u>(12,907)</u>
Balance as of September 30, 2020	<u>\$ 3,310</u>
Balance as of January 1, 2019	\$ -
Depreciation for the period	<u>6,586</u>
Balance as of September 30, 2019	<u>\$ 6,586</u>
Book value:	
Balance as of January 1, 2020	<u>\$ 4,126</u>
Balance as of September 30, 2020	<u>\$ 35,388</u>
Balance as of January 1, 2019	<u>\$ -</u>
Balance as of September 30, 2019	<u>\$ 6,321</u>

(7) Intangible assets

	Computer software	Patent and technology license fee	Total
Cost:			
Balance as of January 1, 2020	\$ 14,350	34,427	48,777
Additions	6,756	1,192	7,948
Reclassification	<u>-</u>	<u>(247)</u>	<u>(247)</u>
Balance as of September 30, 2020	<u>\$ 21,106</u>	<u>35,372</u>	<u>56,478</u>
Balance as of January 1, 2019	\$ 10,473	28,095	38,568
Additions	2,888	5,917	8,805
Reclassification	<u>-</u>	<u>(888)</u>	<u>(888)</u>
Balance as of September 30, 2019	<u>\$ 13,361</u>	<u>33,124</u>	<u>46,485</u>
Accumulated amortization:			
Balance as of January 1, 2020	\$ 6,306	12,357	18,663
Amortization for the period	<u>4,945</u>	<u>3,787</u>	<u>8,732</u>
Balance as of September 30, 2020	<u>\$ 11,251</u>	<u>16,144</u>	<u>27,395</u>
Balance as of January 1, 2019	\$ 3,829	11,095	14,924
Amortization for the period	<u>2,122</u>	<u>3,748</u>	<u>5,870</u>
Balance as of September 30, 2019	<u>\$ 5,951</u>	<u>14,843</u>	<u>20,794</u>

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

	<u>Computer software</u>	<u>Patent and technology license fee</u>	<u>Total</u>
Book value:			
Balance as of January 1, 2020	\$ <u>8,044</u>	<u>22,070</u>	<u>30,114</u>
Balance as of September 30, 2020	\$ <u>9,855</u>	<u>19,228</u>	<u>29,083</u>
Balance as of January 1, 2019	\$ <u>6,644</u>	<u>17,000</u>	<u>23,644</u>
Balance as of September 30, 2019	\$ <u>7,410</u>	<u>18,281</u>	<u>25,691</u>

(8) Short-term borrowings

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Unsecured bank loans	\$ 41,879	-	9,956
Secured bank loans	-	43,000	75,000
Total	\$ <u>41,879</u>	<u>43,000</u>	<u>84,956</u>
Unused credit lines	\$ <u>17,221</u>	<u>167,080</u>	<u>136,064</u>
Range of interest rates	<u>1.05%~2.05%</u>	<u>1.56%</u>	<u>1.56%~2.30%</u>

(9) Lease liabilities

The carry amount of lease liabilities was as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Current	\$ <u>9,330</u>	<u>4,158</u>	<u>6,358</u>
Non-current	\$ <u>16,598</u>	-	-

For the maturity analysis, please refer to note 6(17) of the financial instruments.

The amounts recognized in profit or loss was as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ <u>83</u>	<u>27</u>	<u>120</u>	<u>108</u>
Expenses relating to short-term leases	\$ <u>-</u>	<u>58</u>	<u>380</u>	<u>190</u>

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

	<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Total cash outflow for leases	\$ <u>7,274</u>	<u>6,847</u>

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

A. Description of lease

The Company leases buildings for its office space. The leases of office space typically run for a period of 1 to 5 years.

The Company leases parking space as short-term items, the Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

B. Sale and leaseback

On June 3, 2020, the Company sold land and buildings and leased the reserved office back for five years. The Company has the priority right to lease the buildings at the end of the contract term.

(10) Employee benefit

Given there were no significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off event in the prior fiscal year, the pension costs in the financial statements are measured and disclosed according to the actuarial results determined on December 31, 2019 and 2018.

For the information related to the Company's pension costs for the nine months ended September 30, 2020 and 2019, please refer to note 12.

(11) Income tax

A. The amount income tax expense was as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Current tax expense	\$ -	-	2,978	-

B. 3S's income tax returns had been assessed by the tax authorities through 2018.

(12) Capital and other equity

Except as described in the following paragraph, there were no significant changes in the Company's capital and other equity for the nine months ended September 30, 2020 and 2019. For related information about the stockholders' equity, please refer to note 6(14) of the consolidated financial statements for the year ended December 31, 2019.

In order to improve the financial structure of the Company, a resolution was passed during the stockholders' meeting held on June 18, 2020 for the capital reduction of \$161,719 to compensate the deficit, the capital reduction ratio is 20%. The remaining balance after the reduction amounted to \$646,877. The capital reduction has been approved by the FSC on the July 20, 2020, and the date of capital reduction set on July 21, 2020. All related registration procedures had already been completed.

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Solid State System Co., Ltd. and Subsidiaries
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As of September 30, 2020, December 31 and September 30, 2019, the Company's authorized capital each amounted to \$1,200,000, consisting of common stocks with a par value of NT\$10 per share, and the paid-in capital amounted to \$646,877, \$808,596 and \$808,596, respectively.

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

	<u>Common stocks</u>	
	<u>For the nine months ended</u>	
	<u>September 30,</u>	
	<u>2020</u>	<u>2019</u>
Number of outstanding capitals on January 1	80,860	80,860
Deduct: capital reduction to offset accumulated deficits	<u>(16,172)</u>	<u>-</u>
Number of outstanding capitals on September 30	<u><u>64,688</u></u>	<u><u>80,860</u></u>

The deficit compensation for 2019 and 2018, which were approved during the stockholders' meeting held on June 18, 2020 and June 24, 2019, respectively, were consistent with the resolution approved by the Board of Directors.

The information is available at the Market Observation Post System website.

(13) Earnings per share

The Company calculated the EPS as follows:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Basic and diluted earnings per share:				
Net income (loss) attributable to 3S's stockholders	\$ <u>(29,385)</u>	<u>(36,381)</u>	<u>(36,263)</u>	<u>(115,622)</u>
Weighted average common stocks outstanding (thousand shares)	<u>64,688</u>	<u>80,860</u>	<u>64,688</u>	<u>80,860</u>
Basic and diluted EPS (TWD) \$	<u>(0.45)</u>	<u>(0.45)</u>	<u>(0.56)</u>	<u>(1.43)</u>
Basic and diluted EPS – retroactive adjustment (TWD)		\$ <u>(0.56)</u>		<u>(1.79)</u>

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

The deficit compensation has been retroactively adjusted when calculating the EPS, with the date of capital reduction set on July 21, 2020. The changes in basic and diluted EPS due to retroactive adjustment for 2019 were as follow:

	For the three months ended September 30, 2019		For the nine months ended September 30, 2019	
	Before retroactive adjustment	After retroactive adjustment	Before retroactive adjustment	After retroactive adjustment
Net income (loss) attributable to 3S's stockholders	\$ <u>(36,381)</u>	<u>(36,381)</u>	<u>(115,622)</u>	<u>(115,622)</u>
Weighted average common Stocks outstanding (thousand shares)	\$ <u>80,860</u>	<u>64,688</u>	<u>80,860</u>	<u>64,688</u>
Basic and diluted EPS (TWD)	\$ <u>(0.45)</u>	<u>(0.56)</u>	<u>(1.43)</u>	<u>(1.79)</u>

Since 3S incurred a net loss for the nine months ended September 30, 2020 and 2019, there were no dilutive potential ordinary shares for the period.

(14) Revenue from contracts with customers

A. Disaggregation of revenue

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Primary geographical markets				
America	\$ 85,620	81,917	212,681	258,681
Taiwan	33,326	25,671	76,413	73,369
Japan	15,980	30,526	70,201	93,598
China	27,228	7,635	55,350	11,745
Hong Kong	21,144	2,078	39,441	9,453
	\$ <u>183,298</u>	<u>147,827</u>	<u>454,086</u>	<u>446,846</u>
Major products				
Revenue from IC	\$ 177,974	137,672	409,645	425,912
Technical service income	5,324	10,155	44,441	20,934
	\$ <u>183,298</u>	<u>147,827</u>	<u>454,086</u>	<u>446,846</u>

(Continued)

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

B. Contract balances

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>	<u>January 1, 2019</u>
Contract asset:				
Contract asset— service income	\$ <u>1,460</u>	<u>4,347</u>	<u>9,473</u>	<u>-</u>
Contract liabilities:				
Contract liabilities— advance receipts	\$ <u>804</u>	<u>1,174</u>	<u>871</u>	<u>787</u>

For details on accounts receivable and loss allowance, please refer to note 6(2).

The change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

The amounts of revenue recognized for the nine months ended September 30, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$58 and \$0, respectively.

(15) 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 nine months ended September 30, 2020 and 2019, 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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Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements

(16) Non-operating income and expenses

A. Interest income

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Interest income from bank deposits	\$ 41	78	170	281
Other interest income	11	19	45	53
	<u>\$ 52</u>	<u>97</u>	<u>215</u>	<u>334</u>

B. Other income

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Rental income	\$ -	333	1,693	333

C. Other gains and losses

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Gain on disposals of property, plant and equipment	\$ -	-	72,451	-
Loss on sale-leasebacks	-	-	(10,401)	-
Foreign exchange (losses) gains, net	(1,267)	157	(1,524)	1,265
Losses on financial assets (liabilities) at fair value through profit or loss	-	(145)	-	(360)
Government grants	2,893	-	10,219	-
Others	118	(365)	(2,958)	(4)
	<u>\$ 1,744</u>	<u>(353)</u>	<u>67,787</u>	<u>901</u>

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

D. Finance costs

	<u>For the three months ended</u> <u>September 30,</u>		<u>For the nine months ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest expense — short-term borrowings and other	\$ 60	355	549	924
Interest expense — lease liabilities	<u>83</u>	<u>27</u>	<u>120</u>	<u>108</u>
	<u>\$ 143</u>	<u>382</u>	<u>669</u>	<u>1,032</u>

(17) Financial instruments

Except as described in the following paragraph, there were no significant changes in the Company's fair value of financial instruments exposed to credit risk and market risk. For related information about the fair value of financial instruments, please refer to note 6(19) of the consolidated financial statements for the year ended December 31, 2019.

A. Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>Over 1 years</u>
September 30, 2020					
Non-derivative financial liabilities					
Short-term borrowings	\$ 41,879	41,956	41,956	-	-
Accounts payable	46,480	46,480	46,480	-	-
Accrued payroll and bonus	8,996	8,996	7,534	1,462	-
Other accrued expenses	47,722	47,722	47,722	-	-
Lease liabilities (included in current and non-current)	25,928	26,563	5,059	4,569	16,935
Guarantee deposits received	<u>927</u>	<u>927</u>	<u>-</u>	<u>-</u>	<u>927</u>
	<u>\$ 171,932</u>	<u>172,644</u>	<u>148,751</u>	<u>6,031</u>	<u>17,862</u>
December 31, 2019					
Non-derivative financial liabilities					
Short-term borrowings	\$ 43,000	43,305	43,305	-	-
Accounts payable	16,983	16,983	16,983	-	-
Other accrued expenses	29,292	29,292	29,292	-	-
Current lease liabilities	4,158	4,172	3,691	481	-
Guarantee deposits received	<u>1,050</u>	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>1,050</u>
	<u>\$ 94,483</u>	<u>94,802</u>	<u>93,271</u>	<u>481</u>	<u>1,050</u>

(Continued)

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>
September 30, 2019					
Non-derivative financial liabilities					
Short-term borrowings	\$ 84,956	85,321	85,321	-	-
Accounts payable	14,216	14,216	14,216	-	-
Other accrued expenses	29,123	29,123	29,123	-	-
Current lease liabilities	6,358	6,391	4,323	2,068	-
Guarantee deposits received	1,050	1,050	-	-	1,050
	<u>\$ 135,703</u>	<u>136,101</u>	<u>132,983</u>	<u>2,068</u>	<u>1,050</u>

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

B. Currency risk

(a) Exposure to currency risk

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

	<u>September 30, 2020</u>			<u>December 31, 2019</u>			<u>September 30, 2019</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 3,870	29.10	112,617	2,797	30.08	84,134	2,445	31.02	75,844
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	2,392	29.10	69,607	705	30.08	21,206	611	31.02	18,953

(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 September 30, 2020 and 2019, would have decreased or increased the net loss by \$344 and \$455, 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.

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

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

	<u>For the three months ended September 30,</u>				<u>For the nine months ended September 30,</u>			
	<u>2020</u>		<u>2019</u>		<u>2020</u>		<u>2019</u>	
	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>
USD	<u>\$ (1,267)</u>	<u>-</u>	<u>157</u>	<u>-</u>	<u>(1,524)</u>	<u>-</u>	<u>1,265</u>	<u>-</u>

C. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. 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:

	<u>Carrying Amount</u>	<u>September 30, 2020</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 113,477	-	-	-	-
Accounts receivable (including receivables from related parties)	72,748	-	-	-	-
Other current financial assets	1,695	-	-	-	-
Refundable deposits	8,357	-	-	-	-
Other non-current financial assets	<u>1,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 198,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 41,879	-	-	-	-
Accounts payable	46,480	-	-	-	-
Accrued payroll and bonus	8,996	-	-	-	-
Other accrued expenses	47,722	-	-	-	-
Lease liabilities (included current and non-current)	25,928	-	-	-	-
Guarantee deposits received	<u>927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 171,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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Solid State System Co., Ltd. and Subsidiaries
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		December 31, 2019				
		Carrying	Fair value			
		Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	59,573	-	-	-	-
Accounts receivable (including receivables from related parties)		77,146	-	-	-	-
Other current financial assets		1,943	-	-	-	-
Refundable deposits		7,979	-	-	-	-
Other non-current financial assets		2,945	-	-	-	-
	\$	149,586	-	-	-	-
Financial liabilities measured at amortized cost						
Short-term borrowings	\$	43,000	-	-	-	-
Accounts payable		16,983	-	-	-	-
Other accrued expenses		29,292	-	-	-	-
Current lease liabilities		4,158	-	-	-	-
Refundable deposits		1,050	-	-	-	-
	\$	94,483	-	-	-	-
		September 30, 2019				
		Carrying	Fair value			
		Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	61,748	-	-	-	-
Accounts receivable (including receivables from related parties)		70,956	-	-	-	-
Other current financial assets		2,102	-	-	-	-
Refundable deposits		8,064	-	-	-	-
Other non-current financial assets		3,325	-	-	-	-
	\$	146,195	-	-	-	-
Financial liabilities measured at amortized cost						
Short-term borrowings	\$	84,956	-	-	-	-
Accounts payable		14,216	-	-	-	-
Other accrued expenses		29,123	-	-	-	-
Current lease liabilities		6,358	-	-	-	-
Refundable deposits		1,050	-	-	-	-
	\$	135,703	-	-	-	-

(Continued)

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

(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 are 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.

(c) Valuation techniques for financial instruments that are measured at fair value

Foreign currency forward contract is measured based on the current forward exchange rate.

(18) Financial risk management

Except as described in the following paragraph, there were no significant changes in the Company's objectives and policies applied in the financial risk management from those in note 6(20) of the consolidated financial statement for the year ended December 31, 2019.

Liquidity risk is monitored by the Company's financial department to ensure that the liquidity of the Company is sufficient to meet all its expiring liabilities. As of September 30, 2020, the Company's operating capital and credit line of \$50,000, which is obtainable in the future, is adequate to cover up for all contractual obligations; therefore, no liquidity risk is involved.

(19) Capital management

The Company's objectives, policies and processes for capital management were consistent with the consolidated financial statements for the year ended December 31, 2019. There were no significant changes in quantified factors of capital management from those in the consolidated financial statement for the year ended December 31, 2019. For related information about the capital management, please refer to note 6(21) of the consolidated financial statements for the year ended December 31, 2019.

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

(20) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	<u>Short-term borrowings</u>	<u>Lease liabilities</u>	<u>Guarantee deposits received</u>	<u>Total liabilities from financing activities</u>
Balance as of January 1, 2020	\$ 43,000	4,158	1,050	48,208
Cash flows:				
Proceeds from borrowings	119,431	-	-	119,431
Repayments of borrowings	(120,552)	-	-	(120,552)
Payment of lease liabilities	-	(6,774)	-	(6,774)
Interest paid	-	(120)	-	(120)
Decrease in guarantee deposits received	-	-	(123)	(123)
Non-cash flows:				
Increase in lease liabilities	-	28,544	-	28,544
Interest expense	-	120	-	120
Balance as of September 30, 2020	<u>\$ 41,879</u>	<u>25,928</u>	<u>927</u>	<u>68,734</u>
				<u>Total liabilities from financing activities</u>
	<u>Short-term borrowings</u>	<u>Lease liabilities</u>	<u>Guarantee deposits received</u>	
Balance as of January 1, 2019	\$ 71,000	12,907	-	83,907
Cash flows:				
Proceeds from borrowings	133,491	-	-	133,491
Repayments of borrowings	(119,535)	-	-	(119,535)
Repayments of lease liabilities	-	(6,549)	-	(6,549)
Interest paid	-	(108)	-	(108)
Decrease in guarantee deposits received	-	-	1,050	1,050
Non-cash flows:				
Interest expense	-	108	-	108
Balance as of September 30, 2019	<u>\$ 84,956</u>	<u>6,358</u>	<u>1,050</u>	<u>92,364</u>

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

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.

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Kingston Digital International Ltd (KDIL)	The subsidiary of Kingston Technology Company
KIOXIA Corporation (KIC)(Note)	A member of the board of 3S

Note: Toshiba Memory Corporation was renamed KIOXIA Corporation in October, 2019.

(2) Significant transactions with related parties

A. Sales and service revenue from related parties

<u>Related Party Category</u>	<u>For the three months ended</u> <u>September 30,</u>		<u>For the nine months ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Other related-parties:				
KDIL	\$ 76,699	72,443	188,350	249,207
KIC	15,980	30,526	70,201	93,598
	<u>\$ 92,679</u>	<u>102,969</u>	<u>258,551</u>	<u>342,805</u>

The collection terms for sales to related parties will be 30 to 45 days or after the month-end; the prices of products sold to related parties were determined by the product specifications and the situation regarding market supply and demand, and there was no obvious difference from those with non-related parties.

B. Accounts receivable from related parties

<u>Related Party Category</u>	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Other related-parties:			
KDIL	\$ 46,023	48,024	36,441
KIC	5,487	6,758	10,586
	<u>\$ 51,510</u>	<u>54,782</u>	<u>47,027</u>

(Continued)

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

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Short-term employee benefits	\$ 2,545	2,652	8,232	9,278
Post-employment benefits	81	81	243	243
	<u>\$ 2,626</u>	<u>2,733</u>	<u>8,475</u>	<u>9,521</u>

8. Pledged Assets

The carrying values of the Company's pledged assets are as follows:

Assets	Purpose of Pledged	September 30,	December 31,	September 30,
		2020	2019	2019
Time deposits (recorded in other current financial assets)	Customs duty guarantee	\$ 300	300	300
Property, plant and equipment	Loan commitments	-	87,419	87,951
Refundable deposits	Warranty guarantee	5,500	5,500	5,500
		<u>\$ 5,800</u>	<u>93,219</u>	<u>93,751</u>

9. Significant Commitments and Contingencies

Except the consolidated financial statements notes 6(9), 3S has licenses to use other companies' technology, which require monthly royalty payments based on sales volume.

10. Significant Disaster Losses: None.

11. Significant Subsequent Events: None.

12. Others

(1) The Company incurred a net loss amounting to \$234,490 as of September 30, 2020. The Company intends to adopt the following countermeasures to maintain the Company's 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 profits.

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

B. Financial structure improve plans

- (a) Enforce inventory management, observe 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) Plan to issue of new common shares for cash in private placement or public, in order to have sound financial structure and enrich working capital.
 - (d) Control the labor expenditure, and review and improve the daily expenses 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	For the three months ended September 30, 2020			For the three months ended September 30, 2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	437	41,756	42,193	444	40,686	41,130
Labor and health insurance	48	2,938	2,986	48	3,261	3,309
Pension	23	1,969	1,992	23	2,029	2,052
Others	38	1,721	1,759	44	1,829	1,873
Depreciation	4,557	6,011	10,568	4,721	5,326	10,047
Amortization	-	3,700	3,700	-	1,978	1,978

By function	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	1,337	123,768	125,105	1,308	122,148	123,456
Labor and health insurance	143	9,361	9,504	139	9,902	10,041
Pension	70	6,073	6,143	68	6,125	6,193
Others	104	4,807	4,911	109	4,844	4,953
Depreciation	14,041	16,333	30,374	13,847	15,979	29,826
Amortization	-	8,732	8,732	-	5,870	5,870

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

13. Segment information

The Company is a single reportable segment. The Company is mainly engaged in the research, development, manufacture and sale of integrated circuits (ICs). The operating segment information is consistent with the consolidated financial statements. Please refer to the consolidated statements of comprehensive income for net revenues from external customers and segment profit or loss, and refer to the consolidated balance sheets for segment assets.