

Solid State System Co., Ltd. and Subsidiaries

Consolidated Financial Statements

With Independent Auditors' Review Report
for the Nine Months Ended September 30, 2019 and 2018

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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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, 2019 and 2018, and the related consolidated statements of comprehensive income for the three and nine months ended September 30, 2019 and 2018, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2019 and 2018, 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, 2019 and 2018, and of its consolidated financial performance for the three and nine months ended September 30, 2019 and 2018, as well as its consolidated cash flows for the nine months ended September 30, 2019 and 2018 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 7, 2019

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, 2019 and 2018

Solid State System Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

September 30, 2019, December 31 and September 30, 2018

(Expressed in Thousands of New Taiwan Dollars)

Assets	September 30, 2019		December 31, 2018		September 30, 2018		Liabilities and Equity	September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets:							Current liabilities:						
Cash and cash equivalents (note 6(1))	\$ 61,748	10	33,899	4	25,691	4	Short-term borrowings (notes 6(9) and 8)	\$ 84,956	14	71,000	10	30,586	4
Current financial assets at fair value through profit or loss (note 6(2))	-	-	45	-	-	-	Current contract liabilities	871	-	-	-	2,497	-
Current contract assets	9,473	1	-	-	-	-	Accounts payable	14,216	3	54,797	7	48,773	7
Accounts receivable, net (note 6(3))	23,929	4	26,934	4	26,816	4	Accrued payroll and bonus	6,538	1	14,922	2	9,986	2
Accounts receivable from related parties, net (notes 6(3) and 7)	47,027	8	102,443	14	76,137	11	Current lease liabilities (note 6(10))	6,358	1	-	-	-	-
Inventories (note 6(4))	187,747	31	246,412	33	208,168	30	Other current liabilities	38,042	6	42,142	6	37,784	6
Other current financial assets (notes 6(1), (5) and 8)	2,102	-	65,980	9	81,891	12		150,981	25	182,861	25	129,626	19
Other current assets	9,697	2	12,573	2	11,284	1	Non-current liabilities:						
	341,723	56	488,286	66	429,987	62	Deferred tax liabilities	205	-	205	-	364	-
Non-current assets:							Guarantee deposits received	1,050	-	-	-	-	-
Property, plant and equipment (notes 6(6) and 8)	190,483	32	198,647	26	204,351	30	Other non-current liabilities	1,115	-	1,115	-	726	-
Right-of-use assets (note 6(7))	6,321	1	-	-	-	-		2,370	-	1,320	-	1,090	-
Intangible assets (note 6(8))	25,691	4	23,644	3	22,628	3	Total liabilities	153,351	25	184,181	25	130,716	19
Deferred tax assets	29,860	5	29,860	4	29,007	4	Equity (note 6(14)):						
Refundable deposits (note 8)	8,064	1	7,952	1	7,951	1	Common stock	808,596	133	808,596	107	808,596	116
Net defined benefit asset, non-current (note 6(12))	884	-	884	-	1,719	-	Accumulated deficits	(355,596)	(58)	(239,974)	(32)	(240,857)	(35)
Other non-current financial assets	3,325	1	3,530	-	2,812	-	Total equity	453,000	75	568,622	75	567,739	81
	264,628	44	264,517	34	268,468	38							
Total assets	\$ 606,351	100	752,803	100	698,455	100	Total liabilities and equity	\$ 606,351	100	752,803	100	698,455	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
Reviewed only, not audited in accordance with 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, 2019 and 2018

(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,			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenues (notes 6(16) and 7)	\$ 147,827	100	190,333	100	446,846	100	519,483	100
Operating costs (notes 6(4), (10) and 12)	<u>107,519</u>	<u>73</u>	<u>119,376</u>	<u>63</u>	<u>339,955</u>	<u>76</u>	<u>342,484</u>	<u>66</u>
Gross profit	<u>40,308</u>	<u>27</u>	<u>70,957</u>	<u>37</u>	<u>106,891</u>	<u>24</u>	<u>176,999</u>	<u>34</u>
Operating expenses (notes 6(10), 7 and 12):								
Selling	19,711	14	16,742	9	56,829	13	47,147	9
General and administrative	9,114	6	10,520	5	28,128	6	32,208	6
Research and development	<u>47,559</u>	<u>32</u>	<u>43,985</u>	<u>23</u>	<u>138,092</u>	<u>31</u>	<u>126,574</u>	<u>25</u>
Total operating expenses	<u>76,384</u>	<u>52</u>	<u>71,247</u>	<u>37</u>	<u>223,049</u>	<u>50</u>	<u>205,929</u>	<u>40</u>
Net operating loss	<u>(36,076)</u>	<u>(25)</u>	<u>(290)</u>	<u>-</u>	<u>(116,158)</u>	<u>(26)</u>	<u>(28,930)</u>	<u>(6)</u>
Non-operating income and expenses (note 6(18)):								
Other income	42	-	202	-	279	-	772	-
Other gains and losses	35	-	984	1	1,289	-	2,460	1
Finance costs (note 6(10))	<u>(382)</u>	<u>-</u>	<u>(35)</u>	<u>-</u>	<u>(1,032)</u>	<u>-</u>	<u>(74)</u>	<u>-</u>
Total non-operating income and expenses	<u>(305)</u>	<u>-</u>	<u>1,151</u>	<u>1</u>	<u>536</u>	<u>-</u>	<u>3,158</u>	<u>1</u>
Income (loss) before tax	<u>(36,381)</u>	<u>(25)</u>	<u>861</u>	<u>1</u>	<u>(115,622)</u>	<u>(26)</u>	<u>(25,772)</u>	<u>(5)</u>
Income tax benefits (note 6(13))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,296)</u>	<u>(1)</u>
Net income (loss) for the period	<u>(36,381)</u>	<u>(25)</u>	<u>861</u>	<u>1</u>	<u>(115,622)</u>	<u>(26)</u>	<u>(21,476)</u>	<u>(4)</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>\$ (36,381)</u>	<u>(25)</u>	<u>861</u>	<u>1</u>	<u>(115,622)</u>	<u>(26)</u>	<u>(21,476)</u>	<u>(4)</u>
Earnings per share (New Taiwan Dollars) (note 6(15))								
Basic earnings per share	<u>\$ (0.45)</u>		<u>0.01</u>		<u>(1.43)</u>		<u>(0.27)</u>	
Diluted earnings per share	<u>\$ (0.45)</u>		<u>0.01</u>		<u>(1.43)</u>		<u>(0.27)</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, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	<u>Common stock</u>	<u>Accumulated deficits</u>	<u>Total equity</u>
Balance as of January 1, 2018	\$ 808,596	(219,381)	589,215
Net loss for the period	-	(21,476)	(21,476)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(21,476)	(21,476)
Balance as of September 30, 2018	<u>\$ 808,596</u>	<u>(240,857)</u>	<u>567,739</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>

See accompanying notes to consolidated financial statements.

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Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30,	
	2019	2018
Cash flows from operating activities:		
Loss before tax	\$ (115,622)	(25,772)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation	29,826	21,169
Amortization	5,870	5,158
Expected credit loss	75	156
Interest expense	1,032	74
Interest income	(334)	(772)
Provision for inventory devaluation loss	36,339	7,432
Others	888	214
Total adjustments to reconcile profit (loss)	73,696	33,431
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	2,930	(12,197)
Accounts receivable from related parties	55,416	4,891
Inventories	22,326	(83,582)
Other operating assets	(6,030)	192
Total changes in operating assets	74,687	(90,696)
Changes in operating liabilities:		
Accounts payable	(40,581)	37,273
Other operating liabilities	(11,526)	(3,806)
Total changes in operating liabilities	(52,107)	33,467
Total changes in operating assets and liabilities	22,580	(57,229)
Total adjustments	96,276	(23,798)
Cash flows used in operations	(19,346)	(49,570)
Interest received	350	801
Interest paid	(1,026)	(64)
Income taxes paid	-	(7)
Net cash flows used in operating activities	(20,022)	(48,840)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(15,076)	(30,541)
(Increase) decrease in refundable deposits	(112)	17
Acquisition of intangible assets	(8,898)	(7,721)
Decrease in other current financial assets	63,500	33,400
Net cash flows from (used in) investing activities	39,414	(4,845)
Cash flows from financing activities:		
Proceeds from borrowings	133,491	51,586
Repayments of borrowings	(119,535)	(21,000)
Increase in guarantee deposits received	1,050	-
Payment of lease liabilities	(6,549)	-
Net cash flows from financing activities	8,457	30,586
Net increase (decrease) in cash and cash equivalents for the period	27,849	(23,099)
Cash and cash equivalents at beginning of period	33,899	48,790
Cash and cash equivalents at end of period	\$ 61,748	25,691

See accompanying notes to consolidated financial statements.

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

Solid State System Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2019 and 2018

**(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 7, 2019.

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, 2019.

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date per International Accounting Standards Board</u>
IFRS 16 <i>Leases</i>	January 1, 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	January 1, 2019
Amendments to IFRS 9 <i>Prepayment features with negative compensation</i>	January 1, 2019
Amendments to IAS 19 <i>Plan Amendment, Curtailment or Settlement</i>	January 1, 2019
Amendments to IAS 28 <i>Long-term interests in associates and joint ventures</i>	January 1, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of significant changes are as follows:

A. IFRS 16 *Leases*

IFRS 16 replaces the existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(Continued)

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

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below:

(i) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is, or contains, a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in note 4(3).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which the transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into, or changed on, or after, January 1, 2019.

(ii) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Except for the short-term leases that the Company applied recognition exemptions to, for the leases classified as operating leases under IAS 17, at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Company used the following practical expedients when applying IFRS 16 to its leases:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

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

(iii) Impacts on financial statements

On transition to IFRS 16, the Company recognized the additional amount of \$12,907 as right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019, where the weighted-average rate applied is 1.5644%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	\$ 10,949
Recognition exemption for short-term leases	(529)
Extension and termination options reasonably certain to be exercised	2,629
Undiscounted amount at January 1, 2019	\$ 13,049
Discounted using the incremental borrowing rate at January 1, 2019	\$ 12,907
Lease liabilities recognized at January 1, 2019	\$ 12,907

B. The impact of IFRS endorsed 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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New Standards, Interpretations and Amendments	Effective date per International Accounting Standards Board
Amendments to IFRS 3 <i>Definition of a Business</i>	January 1, 2020
Amendments to IAS 1 and IAS 8 <i>Definition of Material</i>	January 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 Consolidated Financial Statements

- C. The impact of IFRS issued by 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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i>	Effective date to be determined by IASB
IFRS 17 <i>Insurance Contracts</i>	January 1, 2021
Amendments to IFRS 9, IAS39 and IFRS7 <i>Interest Rate Benchmark Reform</i>	January 1, 2020

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.

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, 2018. For related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

- (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, 2018. For related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2018.

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

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, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</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) Leases (applicable from January 1, 2019)

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 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.

(Continued)

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

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 is 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, which qualifies as short-term and low-value assets leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Continued)

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

C. As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

(4) 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 expense for the period is best estimated by multiplying pretax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This is recognized fully as income tax expense for the current period.

For a change in tax rate that is substantively enacted in an interim period, the effect of the change should immediately be recognized in the interim period in which the change occurs.

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.

(5) 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.

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, 2018.

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Solid State System Co., Ltd. and Subsidiaries
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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, 2018. Please refer to Note 6 of the 2018 annual consolidated financial statements.

(1) Cash and cash equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand and petty cash	\$ 343	323	167
Checking and savings accounts	14,905	31,176	23,124
Time deposits	46,500	2,400	2,400
	\$ 61,748	33,899	25,691

Refer to note 6(19) for the sensitivity analysis of the financial assets and liabilities of the Company.

There were no time deposits with original maturities of more than three months as of September 30, 2019. In addition, time deposits with original maturities of more than three months as of December 31 and September 30, 2018, respectively, were reclassified to other current financial assets. Please refer to note 6(5).

(2) Financial assets at fair value through profit or loss

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets at fair value through profit or loss, mandatorily measured at fair value:			
Foreign currency forward contracts	\$ -	45	-

The Company held derivative financial instruments to manage its foreign currency exchange risk resulting from operations. The related transactions had been settled as of September 30, 2019 and 2018. The Company held the following derivative instruments, without the application of hedge accounting, were classified as financial assets at fair value through profit or loss, mandatorily measured at fair value as of December 31, 2018:

Unit: foreign currency thousand

	December 31, 2018		
	Contract amount	Currency	Maturity date
Sell – forward foreign currency exchange contracts	USD 600	Sell USD/ Buy TWD	January 16, 2019~ January 23, 2019

(Continued)

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

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

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
Accounts receivable (including receivables from related parties)	\$ 71,391	129,737	103,176
Less: loss allowance	<u>(435)</u>	<u>(360)</u>	<u>(223)</u>
	<u>\$ 70,956</u>	<u>129,377</u>	<u>102,953</u>
Accounts receivable, net	<u>\$ 23,929</u>	<u>26,934</u>	<u>26,816</u>
Accounts receivable from related parties, net	<u>\$ 47,027</u>	<u>102,443</u>	<u>76,137</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. 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, 2019			
	<u>Gross carrying</u> <u>amount</u>	<u>Weighted-average</u> <u>loss rate</u>	<u>Expected loss</u> <u>allowance</u>
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
More than 180 days past due	<u>88</u>	31.818 %	<u>28</u>
Total	<u>\$ 71,391</u>		<u>435</u>
December 31, 2018			
	<u>Gross carrying</u> <u>amount</u>	<u>Weighted-average</u> <u>loss rate</u>	<u>Expected loss</u> <u>allowance</u>
Not past due	\$ 122,242	0.200 %	244
Past due 1~89 days	5,074	0.020 %	1
Past due 90~180 days	2,071	-	-
More than 180 days past due	<u>350</u>	32.857 %	<u>115</u>
Total	<u>\$ 129,737</u>		<u>360</u>

(Continued)

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

	September 30, 2018		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 97,496	0.217 %	212
Past due 1~89 days	4,849	0.144 %	7
Past due 90~180 days	831	0.482 %	4
Total	\$ 103,176		223

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

	For the nine months ended September 30,	
	2019	2018
Beginning balance	\$ 360	67
Impairment loss recognized	75	156
Ending balance	\$ 435	223

(4) Inventories

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 8,535	36,707	17,495
Work in process	110,767	110,126	114,193
Finished goods	61,120	99,541	76,457
Merchandise inventory	7,325	38	23
	\$ 187,747	246,412	208,168

The details of operating costs were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Cost of goods sold	\$ 97,228	119,460	303,616	335,052
Inventory devaluation loss (reversal)	10,291	(84)	36,339	7,432
	\$ 107,519	119,376	339,955	342,484

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

(5) Other current financial assets

	September 30, 2019	December 31, 2018	September 30, 2018
Time deposits (over three months)	\$ -	63,500	79,600
Pledged deposits	300	300	300
Others	<u>1,802</u>	<u>2,180</u>	<u>1,991</u>
	<u>\$ 2,102</u>	<u>65,980</u>	<u>81,891</u>

Please refer to note 8 for the details regarding deposit guarantee as of September 30, 2019, December 31 and September 30, 2018.

(6) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office and other equipment	Total
Cost:					
Balance as of January 1, 2019	\$ 34,271	73,357	150,208	16,858	274,694
Additions	<u>-</u>	<u>494</u>	<u>13,264</u>	<u>1,318</u>	<u>15,076</u>
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>
Balance as of January 1, 2018	\$ 34,271	74,339	134,980	7,654	251,244
Additions	-	-	16,602	13,475	30,077
Reclassification	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(6)</u>
Balance as of September 30, 2018	<u>\$ 34,271</u>	<u>74,339</u>	<u>151,576</u>	<u>21,129</u>	<u>281,315</u>
Accumulated depreciation:					
Balance as of January 1, 2019	\$ -	18,667	53,050	4,330	76,047
Depreciation for the period	<u>-</u>	<u>1,504</u>	<u>18,196</u>	<u>3,540</u>	<u>23,240</u>
Balance as of September 30, 2019	<u>\$ -</u>	<u>20,171</u>	<u>71,246</u>	<u>7,870</u>	<u>99,287</u>
Balance as of January 1, 2018	\$ -	17,501	34,254	4,040	55,795
Depreciation for the period	<u>-</u>	<u>1,657</u>	<u>15,916</u>	<u>3,596</u>	<u>21,169</u>
Balance as of September 30, 2018	<u>\$ -</u>	<u>19,158</u>	<u>50,170</u>	<u>7,636</u>	<u>76,964</u>
Book value:					
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>
Balance as of January 1, 2018	<u>\$ 34,271</u>	<u>56,838</u>	<u>100,726</u>	<u>3,614</u>	<u>195,449</u>
Balance as of September 30, 2018	<u>\$ 34,271</u>	<u>55,181</u>	<u>101,406</u>	<u>13,493</u>	<u>204,351</u>

Please refer to note 8 for the details regarding facilities guarantee as of September 30, 2019, December 31 and September 30, 2018.

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

(7) Right-of-use assets

		<u>September 30, 2019</u>
Carrying amount of right-of-use assets:		
Buildings		<u>\$ 6,321</u>
	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Depreciation expense of right-of-use assets:		
Buildings	<u>\$ 2,196</u>	<u>6,586</u>

The Company leases office under operating leases, for the nine months ended September 30, 2018; please refer to note 6(11).

(8) Intangible assets

	<u>Computer software</u>	<u>Patent and technology license fee</u>	<u>Total</u>
Cost:			
Balance as of January 1, 2019	\$ 10,473	28,095	38,568
Additions	2,888	5,917	8,805
Reclassification	-	(888)	(888)
Balance as of September 30, 2019	<u>\$ 13,361</u>	<u>33,124</u>	<u>46,485</u>
Balance as of January 1, 2018	\$ 11,583	22,721	34,304
Additions	3,543	4,091	7,634
Reclassification	-	(208)	(208)
Balance as of September 30, 2018	<u>\$ 15,126</u>	<u>26,604</u>	<u>41,730</u>
Accumulated amortization:			
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>
Balance as of January 1, 2018	\$ 5,625	8,319	13,944
Amortization for the period	<u>2,411</u>	<u>2,747</u>	<u>5,158</u>
Balance as of September 30, 2018	<u>\$ 8,036</u>	<u>11,066</u>	<u>19,102</u>

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

	<u>Computer software</u>	<u>Patent and technology license fee</u>	<u>Total</u>
Book value:			
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>
Balance as of January 1, 2018	\$ <u>5,958</u>	<u>14,402</u>	<u>20,360</u>
Balance as of September 30, 2018	\$ <u>7,090</u>	<u>15,538</u>	<u>22,628</u>

(9) Short-term borrowings

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Unsecured bank loans	\$ 9,956	-	9,586
Secured bank loans	<u>75,000</u>	<u>71,000</u>	<u>21,000</u>
Total	\$ <u>84,956</u>	<u>71,000</u>	<u>30,586</u>
Unused short-term credit lines	\$ <u>136,064</u>	<u>139,720</u>	<u>179,944</u>
Range of interest rates	<u>1.56%~2.30%</u>	<u>1.49%~1.56%</u>	<u>1.49%~1.70%</u>

Please refer to note 8 for the details regarding facilities guarantee as of September 30, 2019, December 31 and September 30, 2018.

(10) Lease liabilities

The carry amount of lease liabilities were as follows:

	<u>September 30, 2019</u>
Current	\$ <u>6,358</u>

For the maturity analysis, please refer to note 6(19) of the financial instruments.

The amounts recognized in profit or loss were as follows:

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

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

The amounts recognized in the statement of cash flows for the Company was as follows:

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

As of September 30, 2019, the Company leases buildings for its office space. The leases of office space typically run for a period of 2 years.

(11) Operating lease

There were no significant additions to the operating lease contracts for the nine months ended September 30, 2018. For related information about operating lease, please refer to note 6(9) of the consolidated financial statements for the year ended December 31, 2018.

(12) Employee benefit

Given there was 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, 2018 and 2017.

For the information related to the Company's pension costs for the three and nine months ended September 30, 2019 and 2018, please refer to note 12.

(13) Income tax

A. The amount income tax benefits were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Current tax expense	\$ -	-	-	-
Deferred tax benefit				
Change in tax rate	-	-	-	(4,296)
Income tax benefits	\$ -	-	-	(4,296)

B. 3S's income tax returns had been assessed by the tax authorities through 2017.

(14) Capital and other equity interest

Except as described in the following paragraph, there were no significant changes in the Company's capital and other equity interest for the nine months ended September 30, 2019 and 2018. For related information about the stockholders' equity, please refer to note 6(12) of the consolidated financial statements for the year ended December 31, 2018.

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Solid State System Co., Ltd. and Subsidiaries
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The deficit compensation for 2018 and 2017 which was approved during the stockholders' meeting held on June 24, 2019 and June 8, 2018, respectively, was consistent with the resolution approved by the Board of Directors.

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

After the end of the year, the earnings distribution for 2019 will be subjected for approval in the Board of Directors' meeting and annual stockholders' meeting. The information will be available on the Market Observation Post System website after the resolution meeting.

(15) Earnings per share

The Company calculated the EPS as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Basic earnings per share:				
Net income (loss) attributable to 3S's stockholders	\$ <u>(36,381)</u>	<u>861</u>	<u>(115,622)</u>	<u>(21,476)</u>
Weighted average common stocks outstanding (thousand shares)	<u>80,860</u>	<u>80,860</u>	<u>80,860</u>	<u>80,860</u>
Basic EPS (TWD)	\$ <u>(0.45)</u>	<u>0.01</u>	<u>(1.43)</u>	<u>(0.27)</u>
Diluted EPS (TWD)	\$ <u>(0.45)</u>	<u>0.01</u>	<u>(1.43)</u>	<u>(0.27)</u>

Since 3S incurred a net loss for the nine months ended September 30, 2019 and 2018, there were no dilutive potential ordinary shares for the period.

(16) Revenue from contracts with customers

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Primary geographical markets				
America	\$ 81,917	122,576	258,681	313,180
Taiwan	25,671	32,179	73,369	101,279
Japan	30,526	28,278	93,598	86,073
China	7,635	3,507	11,745	9,620
Hong Kong	2,078	3,773	9,453	9,311
India	-	20	-	20
	<u>\$ 147,827</u>	<u>190,333</u>	<u>446,846</u>	<u>519,483</u>
Major products				
Revenue from IC	\$ 137,672	178,297	425,912	485,121
Technical Service Income	10,155	12,036	20,934	34,362
	<u>\$ 147,827</u>	<u>190,333</u>	<u>446,846</u>	<u>519,483</u>

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Solid State System Co., Ltd. and Subsidiaries
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(17) 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, 2019 and 2018, 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.

(18) Non-operating income and expenses

A. Other income

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Interest income	\$ 97	202	334	772
Others	(55)	-	(55)	-
	<u>\$ 42</u>	<u>202</u>	<u>279</u>	<u>772</u>

B. Other gains and losses

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Foreign exchange gains, net	\$ 157	231	1,265	1,921
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	(145)	(119)	(360)	(377)
Others	23	872	384	916
	<u>\$ 35</u>	<u>984</u>	<u>1,289</u>	<u>2,460</u>

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Solid State System Co., Ltd. and Subsidiaries
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C. Finance costs

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Interest expense — short-term borrowings and other	\$ 355	35	924	74
Interest expense — lease liabilities	<u>27</u>	<u>-</u>	<u>108</u>	<u>-</u>
	<u>\$ 382</u>	<u>35</u>	<u>1,032</u>	<u>74</u>

(19) 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(18) of the consolidated financial statements for the year ended December 31, 2018.

A. Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years
September 30, 2019					
Non-derivative financial liabilities					
Unsecured variable-rate bank loans	\$ 9,956	9,996	9,996	-	-
Secured variable-rate bank loans	75,000	75,325	75,325	-	-
Account Payable	14,216	14,216	14,216	-	-
Current lease liabilities	6,358	6,391	4,323	2,068	-
Other payables (recorded in other current liabilities)	29,123	29,123	29,123	-	-
Guarantee deposits received	<u>1,050</u>	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>1,050</u>
	<u>\$ 135,703</u>	<u>136,101</u>	<u>132,983</u>	<u>2,068</u>	<u>1,050</u>
December 31, 2018					
Non-derivative financial liabilities					
Secured variable-rate bank loans	\$ 71,000	71,377	71,377	-	-
Accounts payable	54,797	54,797	54,797	-	-
Other payables (recorded in other current liabilities)	<u>30,528</u>	<u>30,528</u>	<u>30,528</u>	<u>-</u>	<u>-</u>
	<u>\$ 156,325</u>	<u>156,702</u>	<u>156,702</u>	<u>-</u>	<u>-</u>

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Solid State System Co., Ltd. and Subsidiaries
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	<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, 2018					
Non-derivative financial liabilities					
Unsecured variable-rate bank loans	\$ 9,586	9,613	9,613	-	-
Secured variable-rate bank loans	21,000	21,046	21,046	-	-
Accounts payable	48,773	48,773	48,773	-	-
Other payables (recorded in other current liabilities)	<u>29,197</u>	<u>29,197</u>	<u>29,197</u>	<u>-</u>	<u>-</u>
	<u>\$ 108,556</u>	<u>108,629</u>	<u>108,629</u>	<u>-</u>	<u>-</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, 2019</u>			<u>December 31, 2018</u>			<u>September 30, 2018</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	\$	2,445	31.02	75,844	3,996	30.72	122,757	3,576	30.53	109,175
<u>Financial liabilities</u>										
<u>Monetary items</u>										
USD		611	31.02	18,953	1,778	30.72	54,620	1,613	30.53	49,245

(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, 2019 and 2018, would have decreased or increased the net loss by \$455 and \$479, 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
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The Company's realized and unrealized foreign exchange gains (losses) on the foreign currency monetary items using the functional currency were as follows:

	For the three months ended September 30,				For the nine months ended September 30,			
	2019		2018		2019		2018	
	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate
USD	\$ 157	-	231	-	1,265	-	1,921	-

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:

	Carrying Amount	September 30, 2019			
		Fair value			
		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	-	-	-	-
	<u>\$ 146,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 84,956	-	-	-	-
Accounts payable	14,216	-	-	-	-
Other payables (recorded in other current liabilities)	29,123	-	-	-	-
Current lease liabilities	6,358	-	-	-	-
Guarantee deposits received	1,050	-	-	-	-
	<u>\$ 135,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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December 31, 2018					
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Financial assets at fair value through profit or loss, mandatorily measured at fair value — foreign currency forward contracts	\$ <u>45</u>	<u>-</u>	<u>45</u>	<u>-</u>	<u>45</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 33,899	-	-	-	-
Accounts receivable (including receivables from related parties)	129,377	-	-	-	-
Other current financial assets	65,980	-	-	-	-
Refundable deposits	7,952	-	-	-	-
Other non-current financial assets	<u>3,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>240,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 71,000	-	-	-	-
Accounts payable	54,797	-	-	-	-
Other payables (recorded in other current liabilities)	<u>30,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>156,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
September 30, 2018					
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 25,691	-	-	-	-
Accounts receivable (including receivables from related parties)	102,953	-	-	-	-
Other current financial assets	81,891	-	-	-	-
Refundable deposits	7,951	-	-	-	-
Other non-current financial assets	<u>2,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>221,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 30,586	-	-	-	-
Accounts payable	48,773	-	-	-	-
Other payables (recorded in other current liabilities)	<u>29,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>108,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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(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.

(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.

(20) Financial risk management

There were no significant changes in the Company's objectives and policies applied in the financial risk management from those in note 6(19) of the consolidated financial statement for the year ended December 31, 2018.

(21) 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, 2018. There were no significant changes in quantified factors of capital management from those in the consolidated financial statement for the year ended December 31, 2018. For related information about the capital management, please refer to note 6(20) of the consolidated financial statements for the year ended December 31, 2018.

(22) 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
Balance as of January 1, 2019	\$ 71,000	12,907	-
Cash flows:			
Proceeds from borrowings	133,491	-	-
Repayments of borrowings	(119,535)	-	-
Payment of lease liabilities	-	(6,549)	-
Increase in guarantee deposits received	-	-	1,050
Balance as of September 30, 2019	<u>\$ 84,956</u>	<u>6,358</u>	<u>1,050</u>

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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	Short-term borrowings
	\$ -
Balance as of January 1, 2018	
Cash flows:	
Proceeds from borrowings	51,586
Repayments of borrowings	(21,000)
Balance as of September 30, 2018	\$ 30,586

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
Toshiba Memory Corporation (TMC)(Note)	A member of the board of 3S

Note: TMC was renamed KIOXIA Corporation in October, 2019.

(2) Significant transactions with related parties

A. Sales and service revenue from related parties

Related Party Category	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Other related-parties:				
KDIL	\$ 72,443	122,343	249,207	305,277
TMC	30,526	28,278	93,598	86,073
	\$ 102,969	150,621	342,805	391,350

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.

(Continued)

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

B. Accounts receivable from related parties

<u>Related Party Category</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Other related-parties:			
KDIL	\$ 36,441	84,247	69,870
TMC	<u>10,586</u>	<u>18,196</u>	<u>6,267</u>
	<u>\$ 47,027</u>	<u>102,443</u>	<u>76,137</u>

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 2,652	3,191	9,278	7,694
Post-employment benefits	<u>81</u>	<u>81</u>	<u>243</u>	<u>243</u>
	<u>\$ 2,733</u>	<u>3,272</u>	<u>9,521</u>	<u>7,937</u>

8. Pledged Assets

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

<u>Assets</u>	<u>Purpose of Pledged</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Time deposits (recorded in other current financial assets)	Customs duty guarantee	\$ 300	300	300
Property, plant and equipment	Loan commitments	87,951	88,961	89,453
Refundable deposits	Warranty guarantee	<u>5,500</u>	<u>5,500</u>	<u>5,500</u>
		<u>\$ 93,751</u>	<u>94,761</u>	<u>95,253</u>

9. Significant Commitments and Contingencies

Except the consolidated financial statements notes 6(10) and (11), 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.

(Continued)

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

12. Others

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	444	40,686	41,130	406	40,669	41,075
Labor and health insurance	48	3,261	3,309	44	3,085	3,129
Pension	23	2,029	2,052	22	1,999	2,021
Others	44	1,829	1,873	46	2,064	2,110
Depreciation	4,721	5,326	10,047	4,046	3,075	7,121
Amortization	-	1,978	1,978	-	1,550	1,550

By function	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	1,308	122,148	123,456	1,216	110,947	112,163
Labor and health insurance	139	9,902	10,041	130	9,113	9,243
Pension	68	6,125	6,193	65	5,851	5,916
Others	109	4,844	4,953	115	5,165	5,280
Depreciation	13,847	15,979	29,826	11,982	9,187	21,169
Amortization	-	5,870	5,870	-	5,158	5,158

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.