

Solid State System Co., Ltd. and Subsidiaries

Consolidated Financial Statements

With Independent Auditors' Review Report
for the Three Months Ended March 31, 2022 and 2021

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.



安侯建業聯合會計師事務所

KPMG

新竹市300091新竹科學園區展業一路11號
No. 11, Prosperity Road I, Hsinchu Science Park,
Hsinchu City 300091, Taiwan (R.O.C.)

Telephone 電話 + 886 3 579 9955
Fax 傳真 + 886 3 563 2277
Internet 網址 home.kpmg/tw

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 Solid State System Co., Ltd. ("3S") and its subsidiaries (together referred to as the "Company") as of March 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2022 and 2021, 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 Standard ("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 March 31, 2022 and 2021, and of its consolidated financial performance as well as its consolidated cash flows for the three months ended March 31, 2022 and 2021 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)
May 5, 2022

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 the generally accepted auditing standards as of March 31, 2022 and 2021

Solid State System Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
March 31, 2022, December 31 and March 31, 2021
(Expressed in Thousands of New Taiwan Dollars)

Assets	March 31, 2022		December 31, 2021		March 31, 2021		Liabilities and Equity	March 31, 2022		December 31, 2021		March 31, 2021	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets:							Current liabilities:						
Cash and cash equivalents (note 6(1))	\$ 149,123	21	171,771	22	90,405	16	Short-term borrowings (note 6(7))	\$ -	-	-	-	77,348	14
Accounts receivable, net (note 6(2))	12,031	2	21,643	3	26,049	5	Accounts payable	20,186	3	25,800	4	36,998	6
Accounts receivable from related parties, net (notes 6(2) and 7)	25,747	4	58,774	8	27,743	5	Accrued payroll and bonus	12,959	2	17,324	2	11,682	2
Inventories (note 6(3))	344,864	49	334,848	44	214,617	37	Other accrued expenses	21,216	3	44,636	6	47,213	8
Other current assets (note 8)	8,594	1	9,099	1	11,750	2	Current lease liabilities (note 6(8))	6,213	1	7,150	1	10,577	2
	<u>540,359</u>	<u>77</u>	<u>596,135</u>	<u>78</u>	<u>370,564</u>	<u>65</u>	Other current liabilities	<u>6,813</u>	<u>1</u>	<u>9,308</u>	<u>1</u>	<u>10,741</u>	<u>2</u>
								<u>67,387</u>	<u>10</u>	<u>104,218</u>	<u>14</u>	<u>194,559</u>	<u>34</u>
Non-current assets:							Non-current liabilities:						
Property, plant and equipment (note 6(4))	82,787	12	84,392	11	100,863	18	Deferred tax liabilities	861	-	861	-	729	-
Right-of-use assets (note 6(5))	19,641	3	21,847	3	31,371	5	Non-current lease liabilities (note 6(8))	7,079	1	7,851	1	12,401	2
Intangible assets (note 6(6))	16,710	2	20,287	3	27,080	5	Guarantee deposits received	<u>618</u>	<u>-</u>	<u>618</u>	<u>-</u>	<u>618</u>	<u>-</u>
Deferred tax assets	29,860	4	29,860	4	29,860	5		<u>8,558</u>	<u>1</u>	<u>9,330</u>	<u>1</u>	<u>13,748</u>	<u>2</u>
Refundable deposits (note 8)	7,000	1	7,095	1	7,958	1	Total liabilities	<u>75,945</u>	<u>11</u>	<u>113,548</u>	<u>15</u>	<u>208,307</u>	<u>36</u>
Net defined benefit asset, non-current (note 6(9))	4,205	1	4,205	-	3,545	1	Equity (note 6(11)):						
Other non-current assets	392	-	533	-	1,136	-	Common stock	746,877	107	746,877	98	646,877	113
	<u>160,595</u>	<u>23</u>	<u>168,219</u>	<u>22</u>	<u>201,813</u>	<u>35</u>	Capital surplus	176,995	25	176,995	23	-	-
							Accumulated deficits	<u>(298,863)</u>	<u>(43)</u>	<u>(273,066)</u>	<u>(36)</u>	<u>(282,807)</u>	<u>(49)</u>
							Total equity	<u>625,009</u>	<u>89</u>	<u>650,806</u>	<u>85</u>	<u>364,070</u>	<u>64</u>
Total assets	<u>\$ 700,954</u>	<u>100</u>	<u>764,354</u>	<u>100</u>	<u>572,377</u>	<u>100</u>	Total liabilities and equity	<u>\$ 700,954</u>	<u>100</u>	<u>764,354</u>	<u>100</u>	<u>572,377</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 months ended March 31, 2022 and 2021

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

	For the three months ended			
	March 31,			
	2022		2021	
	Amount	%	Amount	%
Operating revenues (notes 6(13) and 7)	\$ 116,115	100	183,904	100
Operating costs (notes 6(3) and 8)	<u>83,375</u>	<u>72</u>	<u>127,035</u>	<u>69</u>
Gross profit	<u>32,740</u>	<u>28</u>	<u>56,869</u>	<u>31</u>
Operating expenses (notes 6(8) and 7):				
Selling	17,301	15	15,985	9
General and administrative	8,836	8	8,753	5
Research and development	<u>34,914</u>	<u>30</u>	<u>39,098</u>	<u>21</u>
Total operating expenses	<u>61,051</u>	<u>53</u>	<u>63,836</u>	<u>35</u>
Net operating loss	<u>(28,311)</u>	<u>(25)</u>	<u>(6,967)</u>	<u>(4)</u>
Non-operating income and expenses (note 6(15)):				
Interest income	100	-	47	-
Other income	-	-	-	-
Other gains and losses	2,467	2	(938)	-
Finance costs (note 6(8))	<u>(53)</u>	<u>-</u>	<u>(207)</u>	<u>-</u>
Total non-operating income and expenses	<u>2,514</u>	<u>2</u>	<u>(1,098)</u>	<u>-</u>
Loss expenses before tax	(25,797)	(23)	(8,065)	(4)
Income tax Profit expenses (note 6(10))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss for the period	<u>(25,797)</u>	<u>(23)</u>	<u>(8,065)</u>	<u>(4)</u>
Other comprehensive income for the period (after tax)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u><u>\$ (25,797)</u></u>	<u><u>(23)</u></u>	<u><u>(8,065)</u></u>	<u><u>(4)</u></u>
Earnings per share (New Taiwan Dollars) (note 6(12))				
Basic earnings per share	<u><u>\$ (0.35)</u></u>		<u><u>(0.12)</u></u>	
Diluted earnings per share	<u><u>\$ (0.35)</u></u>		<u><u>(0.12)</u></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 Changes in Equity
For the three months ended March 31, 2022 and 2021
(Expressed in Thousands of New Taiwan Dollars)

	<u>Common stock</u>	<u>Capital surplus</u>	<u>Accumulated deficits</u>	<u>Total equity</u>
Balance as of January 1, 2021	\$ 646,877	-	(274,742)	372,135
Net loss for the period	-	-	(8,065)	(8,065)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	(8,065)	(8,065)
Balance as of March 31, 2021	<u>\$ 646,877</u>	<u>-</u>	<u>(282,807)</u>	<u>364,070</u>
Balance as of January 1, 2022	\$ 746,877	176,995	(273,066)	650,806
Net loss for the period	-	-	(25,797)	(25,797)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income	-	-	(25,797)	(25,797)
Balance as of March 31, 2022	<u>\$ 746,877</u>	<u>176,995</u>	<u>(298,863)</u>	<u>625,009</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 Cash Flows

For the three months ended March 31, 2022 and 2021

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31,	
	2022	2021
Cash flows from operating activities:		
Loss before income tax	\$ (25,797)	(8,065)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation	8,848	9,334
Amortization	3,577	3,818
Expected credit gain	(34)	(5)
Interest expense	53	207
Interest income	(100)	(47)
Gain on disposal of property, plant and equipment	-	(35)
Provision for inventory devaluation loss (reversed)	8,061	(4,621)
Total adjustments to reconcile profit (loss)	20,405	8,651
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	9,646	(12,107)
Accounts receivable from related parties	33,027	21,374
Inventories	(18,077)	(18,648)
Other operating assets	653	83
Total changes in operating assets	25,249	(9,298)
Changes in operating liabilities:		
Accounts payable	(5,614)	(14,243)
Other operating liabilities	(31,608)	(10,737)
Total changes in operating liabilities	(37,222)	(24,980)
Total changes in operating assets and liabilities	(11,973)	(34,278)
Total adjustments	8,432	(25,627)
Cash flows used in operations	(17,365)	(33,692)
Interest received	93	46
Interest paid	(53)	(200)
Net cash flows used in operating activities	(17,325)	(33,846)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(2,738)	(8,368)
Proceeds from disposal of property, plant and equipment price	-	660
Decrease in refundable deposits	95	306
Acquisition of intangible assets	-	(1,931)
Increase in other non-current assets	-	(600)
Net cash flows used in investing activities	(2,643)	(9,933)
Cash flows from financing activities:		
Proceeds from borrowings	-	81,595
Repayments of borrowings	-	(38,663)
Decrease in guarantee deposits received	-	(309)
Payment of lease liabilities	(2,680)	(2,681)
Net cash flows (used in) from financing activities	(2,680)	39,942
Net decrease in cash and cash equivalents for the period	(22,648)	(3,837)
Cash and cash equivalents at beginning of period	171,771	94,242
Cash and cash equivalents at end of period	\$ 149,123	90,405

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

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

**(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 Consolidated Financial Statements

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

3. New Standards, Amendments and Interpretations Adopted:

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

The Company has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2022:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

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

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Disclosure of Accounting Policies”

(Continued)

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

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

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, 2021. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2021.

(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, 2021. For related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2021.

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>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</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) 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.

5. Significant Accounting Assumptions and Judgments, and Major Sources of Estimation 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, 2021.

6. Explanation 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, 2021. Please refer to Note 6 of the 2021 annual consolidated financial statements.

(1) Cash and cash equivalents

	March 31, 2022	December 31, 2021	March 31, 2021
Cash on hand and petty cash	\$ 53	53	129
Checking and savings accounts	54,370	112,018	50,076
Time deposits	94,700	59,700	40,200
	<u>\$ 149,123</u>	<u>171,771</u>	<u>90,405</u>

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

(Continued)

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

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>	<u>January 1, 2020</u>
Accounts receivable (including receivables from related parties)	\$ 37,798	80,471	53,824	63,091
Less: loss allowance	(20)	(54)	(32)	(37)
	<u>\$ 37,778</u>	<u>80,417</u>	<u>53,792</u>	<u>63,054</u>
Accounts receivable, net	<u>\$ 12,031</u>	<u>21,643</u>	<u>26,049</u>	<u>13,937</u>
Accounts receivable from related parties, net	<u>\$ 25,747</u>	<u>58,774</u>	<u>27,743</u>	<u>49,117</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:

	<u>March 31, 2022</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average loss rate</u>	<u>Expected loss allowance</u>
Not past due	\$ 37,442	0.048 %	18
Past due 1~89 days	356	0.562 %	2
Total	<u>\$ 37,798</u>		<u>20</u>
	<u>December 31, 2021</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average loss rate</u>	<u>Expected loss allowance</u>
Not past due	\$ 78,256	0.055 %	43
Past due 1~89 days	2,215	0.497 %	11
Total	<u>\$ 80,471</u>		<u>54</u>
	<u>March 31, 2021</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average loss rate</u>	<u>Expected loss allowance</u>
Not past due	\$ 47,115	0.068 %	32
Past due 1~89 days	6,709	-	-
Total	<u>\$ 53,824</u>		<u>32</u>

(Continued)

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

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

	For the three months ended	
	March 31,	
	2022	2021
Beginning balance	\$ 54	37
Impairment loss recognized	(34)	(5)
Ending balance	\$ 20	32

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

(3) Inventories

	March 31,	December 31,	March 31,
	2022	2021	2021
Raw materials	\$ 3,883	2,528	1,836
Work in process	151,148	132,289	146,896
Finished goods	189,780	199,941	65,844
Merchandise inventory	53	90	41
	\$ 344,864	334,848	214,617

The details of operating costs were as follows:

	For the three months ended	
	March 31,	
	2022	2021
Cost of goods sold	\$ 74,273	132,345
Provision for inventory devaluation loss (reversed)	8,061	(4,621)
Unallocated production overheads	1,858	411
Revenue from sale of scrap	(817)	(1,100)
	\$ 83,375	127,035

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

(Continued)

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

(4) Property, plant and equipment

	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Cost:			
Balance as of January 1, 2022	\$ 131,245	39,819	171,064
Additions	<u>3,393</u>	<u>673</u>	<u>4,066</u>
Balance as of March 31, 2022	<u>\$ 134,638</u>	<u>40,492</u>	<u>175,130</u>
Balance as of January 1, 2021	\$ 140,319	35,938	176,257
Additions	8,368	3,912	12,280
Disposal and write-off	<u>(1,151)</u>	<u>-</u>	<u>(1,151)</u>
Balance as of March 31, 2021	<u>\$ 147,536</u>	<u>39,850</u>	<u>187,386</u>
Accumulated depreciation:			
Balance as of January 1, 2022	\$ 65,600	21,072	86,672
Depreciation for the period	<u>4,164</u>	<u>1,507</u>	<u>5,671</u>
Balance as of March 31, 2022	<u>\$ 69,764</u>	<u>22,579</u>	<u>92,343</u>
Balance as of January 1, 2021	\$ 65,655	15,272	80,927
Depreciation for the period	4,544	1,578	6,122
Disposal and write-off	<u>(526)</u>	<u>-</u>	<u>(526)</u>
Balance as of March 31, 2021	<u>\$ 69,673</u>	<u>16,850</u>	<u>86,523</u>
Book value:			
Balance as of January 1, 2022	<u>\$ 65,645</u>	<u>18,747</u>	<u>84,392</u>
Balance as of March 31, 2022	<u>\$ 64,874</u>	<u>17,913</u>	<u>82,787</u>
Balance as of January 1, 2021	<u>\$ 74,664</u>	<u>20,666</u>	<u>95,330</u>
Balance as of March 31, 2021	<u>\$ 77,863</u>	<u>23,000</u>	<u>100,863</u>

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

(5) Right-of-use assets

	<u>Buildings</u>
Cost:	
Balance as of January 1, 2022	\$ 39,754
Additions	971
Decreases	<u>(942)</u>
Balance as of March 31, 2022	<u>\$ 39,783</u>

(Continued)

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

	Buildings
Balance as of January 1, 2021	\$ 38,698
Additions	2,223
Decreases	<u>(1,167)</u>
Balance as of March 31, 2021	<u>\$ 39,754</u>
Accumulated Depreciation:	
Balance as of January 1, 2022	\$ 17,907
Depreciation for the period	3,177
Decreases	<u>(942)</u>
Balance as of March 31, 2022	<u>\$ 20,142</u>
Balance as of January 1, 2021	\$ 6,338
Depreciation for the period	3,212
Decreases	<u>(1,167)</u>
Balance as of March 31, 2021	<u>\$ 8,383</u>
Book value:	
Balance as of January 1, 2022	<u>\$ 21,847</u>
Balance as of March 31, 2022	<u>\$ 19,641</u>
Balance as of January 1, 2021	<u>\$ 32,360</u>
Balance as of March 31, 2021	<u>\$ 31,371</u>

(6) Intangible assets

	Computer software	Patent and technology license fee	Total
Cost:			
Balance as of March 31, 2022 (same as January 1, 2022)	<u>\$ 24,973</u>	<u>34,711</u>	<u>59,684</u>
Balance as of January 1, 2021	\$ 20,354	33,846	54,200
Additions	<u>2,635</u>	<u>1,826</u>	<u>4,461</u>
Balance as of March 31, 2021	<u>\$ 22,989</u>	<u>35,672</u>	<u>58,661</u>
Accumulated amortization:			
Balance as of January 1, 2022	\$ 19,835	19,562	39,397
Amortization for the period	<u>2,254</u>	<u>1,323</u>	<u>3,577</u>
Balance as of March 31, 2022	<u>\$ 22,089</u>	<u>20,885</u>	<u>42,974</u>

(Continued)

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

	Computer software	Patent and technology license fee	Total
Balance as of January 1, 2021	\$ 12,966	14,797	27,763
Amortization for the period	<u>2,398</u>	<u>1,420</u>	<u>3,818</u>
Balance as of March 31, 2021	<u><u>\$ 15,364</u></u>	<u><u>16,217</u></u>	<u><u>31,581</u></u>
Book value:			
Balance as of January 1, 2022	<u><u>\$ 5,138</u></u>	<u><u>15,149</u></u>	<u><u>20,287</u></u>
Balance as of March 31, 2022	<u><u>\$ 2,884</u></u>	<u><u>13,826</u></u>	<u><u>16,710</u></u>
Balance as of January 1, 2021	<u><u>\$ 7,388</u></u>	<u><u>19,049</u></u>	<u><u>26,437</u></u>
Balance as of March 31, 2021	<u><u>\$ 7,625</u></u>	<u><u>19,455</u></u>	<u><u>27,080</u></u>

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

(7) Short-term borrowings

	March 31, 2022	December 31, 2021	March 31, 2021
Unsecured bank loans	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>77,348</u></u>
Unused credit lines	<u><u>\$ 110,000</u></u>	<u><u>110,000</u></u>	<u><u>32,631</u></u>
Range of interest rates	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>0.83%~2.05%</u></u>

(8) Lease liabilities

The carry amounts of lease liabilities were as follows:

	March 31, 2022	December 31, 2021	March 31, 2021
Current	<u><u>\$ 6,213</u></u>	<u><u>7,150</u></u>	<u><u>10,577</u></u>
Non-current	<u><u>\$ 7,079</u></u>	<u><u>7,851</u></u>	<u><u>12,401</u></u>

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

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31,	
	2022	2021
Interest on lease liabilities	<u><u>\$ 49</u></u>	<u><u>83</u></u>

(Continued)

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

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

	For the three months ended	
	March 31,	
	2022	2021
Total cash outflow for leases	\$ 2,729	2,764

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

(9) 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, 2021 and 2020.

For the information related to the Company's pension costs for the three months ended March 31, 2022 and 2021, please refer to note 12.

(10) Income tax

A. The amount income tax expense was as follows:

	For the three months ended	
	March 31,	
	2022	2021
Current tax expense	\$ -	-

B. 3S's income tax returns had been assessed by the tax authorities through 2019.

(11) 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 for the three months ended March 31, 2022 and 2021. For related information about the stockholders' equity, please refer to note 6(11) of the consolidated financial statements for the year ended December 31, 2021.

A. Common stock

As of March 31, 2022, December 31 and March 31, 2021, the authorized capital are both \$1,200,000 according to the 3S's articles of Incorporation (Among the authorized capital, the \$100,000 thousand dollars is used for the issuance of employee stock option certificates), The paid-in capital amounted to \$746,877, \$746,877 and \$646,877 thousand dollars, respectively, and with par value of \$10 per share.

(Continued)

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

B. Capital surplus

3S's capital surplus was as follows:

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>March 31,</u> <u>2021</u>
Donation from shareholders	\$ 868	868	-
Issue of shares	171,320	171,320	-
Compensation cost of employee stock options at cash capital increase	<u>4,807</u>	<u>4,807</u>	<u>-</u>
	<u>\$ 176,995</u>	<u>176,995</u>	<u>-</u>

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

C. Distribution of earnings/deficit compensation

The deficit compensation for 2021 was presented for a resolution in the Board of Directors' meeting on March 3, 2022, which are then to be approved in annual stockholders' meeting. The deficit compensation for 2020 which were approved during the stockholders' meeting held on July 8, 2021, was consistent with those of the resolution approved by the Board of Directors.

The information will be available on the Market Observation Post System website.

(12) Earnings per share

The Company calculated the EPS as follows:

	For the three months ended	
	March 31,	
	<u>2022</u>	<u>2021</u>
Basic and diluted earnings per share:		
Net loss attributable to 3S's stockholders	\$ <u>(25,797)</u>	<u>(8,065)</u>
Weighted average common stocks outstanding (thousand shares)	<u>74,688</u>	<u>64,688</u>
Basic and diluted EPS (TWD)	\$ <u>(0.35)</u>	<u>(0.12)</u>

There were no dilutive potential ordinary shares for the period.

(Continued)

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

(13) Revenue from contracts with customers

A. Disaggregation of revenue

	For the three months ended March 31,	
	2022	2021
Primary geographical markets		
America	\$ 64,679	66,670
North-east Asia	22,323	4,946
China	16,224	63,777
Taiwan	7,715	45,428
Others	5,174	3,083
	\$ 116,115	183,904
Major products		
Revenue from IC	\$ 112,702	183,718
Technical Service Income	3,413	186
	\$ 116,115	183,904

(14) Compensation of employees and directors

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

For the three month ended March 31, 2022 , the employees' and directors' remuneration that were estimated, based on the net income before tax, after offsetting the employees' and directors' remuneration and the accumulated deficit, then the remainder was multiplied by the percentage in accordance with the 3S's Articles of Incorporation. Because there is no remaining amount after offsetting accumulated deficit, there is no remainder shall be appropriated as employees' and directors' remuneration.

Because 3S incurred a net loss for the three months ended March 31, 2021, 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.

(Continued)

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

(15) Non-operating income and expenses

A. Interest income

	For the three months ended March 31,	
	2022	2021
Interest income from bank deposits	\$ 96	39
Other interest income	4	8
	\$ 100	47

B. Other gains and losses

	For the three months ended March 31,	
	2022	2021
Gain on disposals of property, plant and equipment	\$ -	35
Foreign exchange (losses) gains, net	2,160	(1,263)
Government grants	42	-
Others	265	290
	\$ 2,467	(938)

C. Finance costs

	For the three months ended March 31,	
	2022	2021
Interest expense — short-term borrowings and other	\$ 4	124
Interest expense — lease liabilities	49	83
	\$ 53	207

(16) 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(17) of the consolidated financial statements for the year ended December 31, 2021.

(Continued)

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

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 1 years</u>	<u>1~5 years</u>
March 31, 2022				
Non-derivative financial liabilities				
Accounts payable	\$ 20,186	20,186	20,186	-
Accrued payroll and bonus	12,959	12,959	12,959	-
Other accrued expenses	21,216	21,216	21,216	-
Lease liabilities (included in current and non-current)	13,292	13,535	6,345	7,190
Guarantee deposits received	618	618	-	618
	<u>\$ 68,271</u>	<u>68,514</u>	<u>60,706</u>	<u>7,808</u>
December 31, 2021				
Non-derivative financial liabilities				
Accounts payable	\$ 25,800	25,800	25,800	-
Accrued payroll and bonus	17,324	17,324	17,324	-
Other accrued expenses	44,636	44,636	44,636	-
Lease liabilities (included in current and non-current)	15,001	15,286	7,297	7,989
Guarantee deposits received	618	618	-	618
	<u>\$ 103,379</u>	<u>103,664</u>	<u>95,057</u>	<u>8,607</u>
March 31, 2021				
Non-derivative financial liabilities				
Short-term borrowings	\$ 77,348	77,532	77,532	-
Accounts payable	36,998	36,998	36,998	-
Accrued payroll and bonus	11,682	11,682	11,682	-
Other accrued expenses	47,213	47,213	47,213	-
Lease liabilities (included in current and non-current)	22,978	23,464	10,825	12,639
Guarantee deposits received	618	618	-	618
	<u>\$ 196,837</u>	<u>197,507</u>	<u>184,250</u>	<u>13,257</u>

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

(Continued)

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

B. Currency risk

(a) Exposure to currency risk

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

	March 31, 2022			December 31, 2021			March 31, 2021			
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	
<u>Financial assets</u>										
<u>Monetary items</u>										
USD	\$	1,944	28.62	55,637	3,119	27.66	86,272	2,502	28.52	71,357
<u>Financial liabilities</u>										
<u>Monetary items</u>										
USD	\$	678	28.62	19,404	974	27.66	26,941	3,828	28.52	109,175

(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 March 31, 2022 and 2021, would have decreased or increased the net loss by \$290 and \$303, respectively. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.

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

	For the three months ended March 31,			
	2022		2021	
	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate
USD	\$ 2,160	-	(1,263)	-

(Continued)

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

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:

	March 31, 2022				
	<u>Carrying Amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 149,123	-	-	-	-
Accounts receivable (including receivables from related parties)	37,778	-	-	-	-
Refundable deposits	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 193,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Accounts payable	\$ 20,186	-	-	-	-
Accrued payroll and bonus	12,959	-	-	-	-
Other accrued expenses	21,216	-	-	-	-
Lease liabilities (included in current and non-current)	13,292	-	-	-	-
Guarantee deposits received	<u>618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 68,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	December 31, 2021				
	<u>Carrying Amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 171,771	-	-	-	-
Accounts receivable (including receivables from related parties)	80,417	-	-	-	-
Refundable deposits	<u>7,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 259,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

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

		December 31, 2021				
		Carrying	Fair value			
		Amount	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost						
Accounts payable	\$	25,800	-	-	-	-
Accrued payroll and bonus		17,324	-	-	-	-
Other accrued expenses		44,636	-	-	-	-
Lease liabilities (included in current and non-current)		15,001	-	-	-	-
Guarantee deposits received		618	-	-	-	-
		<u>\$ 103,379</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		March 31, 2021				
		Carrying	Fair value			
		Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	90,405	-	-	-	-
Accounts receivable (including receivables from related parties)		53,792	-	-	-	-
Refundable deposits		7,958	-	-	-	-
		<u>\$ 152,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost						
Short-term borrowings		77,348	-	-	-	-
Accounts payable		36,998	-	-	-	-
Accrued payroll and bonus		11,682	-	-	-	-
Other accrued expenses		47,213	-	-	-	-
Lease liabilities (included in current and non-current)		22,978	-	-	-	-
Guarantee deposits received		618	-	-	-	-
		<u>\$ 196,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

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

(Continued)

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

(17) 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(18) of the consolidated financial statement for the year ended December 31, 2021.

(18) 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, 2021. There were no significant changes in quantified factors of capital management from those in the consolidated financial statement for the year ended December 31, 2021. For related information about the capital management, please refer to note 6(19) of the consolidated financial statements for the year ended December 31, 2021.

(19) 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, 2022	\$ -	15,001	618	15,619
Cash flows:				
Payment of lease liabilities	-	(2,680)	-	(2,680)
Interest paid	-	(49)	-	(49)
Non-cash flow:				
Increase in lease liabilities	-	971	-	971
Interest expense	-	49	-	49
Balance as of March 31, 2022	<u>\$ -</u>	<u>13,292</u>	<u>618</u>	<u>13,910</u>

(Continued)

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

	<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, 2021	\$ 34,416	23,436	927	58,779
Cash flows:				
Proceeds from borrowings	81,595	-	-	81,595
Repayments of borrowings	(38,663)	-	-	(38,663)
Payment of lease liabilities	-	(2,681)	-	(2,681)
Interest paid	-	(83)	-	(83)
Decrease in guarantee deposits received	-	-	(309)	(309)
Non-cash flow:				
Increase in lease liabilities	-	2,223	-	2,223
Interest expense	-	83	-	83
Balance as of March 31, 2021	<u>\$ 77,348</u>	<u>22,978</u>	<u>618</u>	<u>100,944</u>

7. Related-Party Transactions

(1) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<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)	A member of the board of 3S

(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 March 31,</u>	
	<u>2022</u>	<u>2021</u>
Other related-parties:		
KDIL	\$ 64,679	66,484
KIC	<u>15,188</u>	<u>3,233</u>
	<u>\$ 79,867</u>	<u>69,717</u>

(Continued)

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

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>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Other related-parties:			
KDIL	\$ 25,747	40,911	26,370
KIC	-	17,863	1,373
	<u>\$ 25,747</u>	<u>58,774</u>	<u>27,743</u>

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the three months ended March 31,	
	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 2,438	2,272
Post-employment benefits	81	81
	<u>\$ 2,519</u>	<u>2,353</u>

8. Pledged Assets

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

<u>Assets</u>	<u>Purpose of Pledged</u>	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Time deposits (recorded in other current financial assets)	Customs duty guarantee	\$ 900	900	300
Refundable deposits	Warranty guarantee	4,234	4,336	5,197
		<u>\$ 5,134</u>	<u>5,236</u>	<u>5,497</u>

9. Significant Commitments and Contingencies

Except for notes 6(8) of the consolidated financial statements, 3S has obtained licenses to use other companies' technology, which requires a monthly royalty payment based on its sales volume. 3S must also guarantee the minimum production capacity required by some outsourcing factories.

(Continued)

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

10. **Losses Due to Major Disasters: None.**

11. **Subsequent Events: None.**

12. **Others**

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

By function	For the three months ended March 31, 2022			For the three months ended March 31, 2021		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	836	36,305	37,141	582	36,833	37,415
Labor and health insurance	88	2,962	3,050	62	3,133	3,195
Pension	45	1,716	1,761	30	1,799	1,829
Others	61	1,736	1,797	51	1,702	1,753
Depreciation	3,685	5,163	8,848	3,916	5,418	9,334
Amortization	-	3,577	3,577	-	3,818	3,818

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.