

Solid State System Co., Ltd. and Subsidiaries
Consolidated Financial Statements
With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2021 and 2020

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



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KPMG

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Solid State System Co., Ltd. ("3S") and its subsidiaries (together referred to as the "Company") as of September 30, 2021 and 2020, and the related consolidated statements of comprehensive income for the three and nine months ended September 30, 2021 and 2020, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2021 and 2020, 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, 2021 and 2020, and of its consolidated financial performance for the three and nine months ended September 30, 2021 and 2020, as well as its consolidated cash flows for the nine months ended September 30, 2021 and 2020 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 4, 2021

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, 2021 and 2020

Solid State System Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

September 30, 2021, December 31 and September 30, 2020

(Expressed in Thousands of New Taiwan Dollars)

	<u>September 30, 2021</u>		<u>December 31, 2020</u>		<u>September 30, 2020</u>			<u>September 30, 2021</u>		<u>December 31, 2020</u>		<u>September 30, 2020</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets							Liabilities and Equity						
Current assets:							Current liabilities:						
Cash and cash equivalents (note 6(1))	\$ 49,589	8	94,242	17	113,477	19	Short-term borrowings (notes 6(7))	\$ 107,334	18	34,416	6	41,879	7
Current contract assets (note 6(13))	-	-	1,413	-	1,460	-	Current contract liabilities (note 6(13))	1,171	-	4,204	1	804	-
Accounts receivable, net (note 6(2))	29,322	5	13,937	3	21,238	3	Accounts payable	29,466	5	51,241	9	46,480	7
Accounts receivable from related parties, net (notes 6(2) and 7)	38,336	7	49,117	9	51,510	9	Accrued payroll and bonus	11,898	2	17,170	3	8,996	2
Inventories (note 6(3))	295,098	49	191,348	34	189,872	32	Other accrued expenses	44,912	8	45,742	8	47,722	8
Other current assets (note 8)	8,701	1	9,573	1	11,278	2	Current lease liabilities (note 6(8))	8,796	1	9,069	2	9,330	2
	<u>421,046</u>	<u>70</u>	<u>359,630</u>	<u>64</u>	<u>388,835</u>	<u>65</u>	Other current liabilities	7,384	1	6,808	1	9,592	2
								<u>210,961</u>	<u>35</u>	<u>168,650</u>	<u>30</u>	<u>164,803</u>	<u>28</u>
Non-current assets:							Non-current liabilities:						
Property, plant and equipment (notes 6(4))	88,467	15	95,330	17	100,356	17	Deferred tax liabilities	729	-	729	-	249	-
Right-of-use assets (note 6(5))	25,022	4	32,360	6	35,388	6	Non-current lease liabilities (note 6(8))	8,621	2	14,367	3	16,598	3
Intangible assets (note 6(6))	23,995	4	26,437	5	29,083	5	Guarantee deposits received	618	-	927	-	927	-
Deferred tax assets	29,860	5	29,860	5	29,860	5		<u>9,968</u>	<u>2</u>	<u>16,023</u>	<u>3</u>	<u>17,774</u>	<u>3</u>
Refundable deposits (note 8)	7,307	1	8,264	2	8,357	2	Total liabilities	<u>220,929</u>	<u>37</u>	<u>184,673</u>	<u>33</u>	<u>182,577</u>	<u>31</u>
Net defined benefit asset, non-current	3,545	1	3,545	1	1,150	-	Equity (note 6(11)):						
Other non-current assets	675	-	1,382	-	1,935	-	Common stock	646,877	108	646,877	116	646,877	108
	<u>178,871</u>	<u>30</u>	<u>197,178</u>	<u>36</u>	<u>206,129</u>	<u>35</u>	Accumulated deficits	(267,889)	(45)	(274,742)	(49)	(234,490)	(39)
							Total equity	<u>378,988</u>	<u>63</u>	<u>372,135</u>	<u>67</u>	<u>412,387</u>	<u>69</u>
Total assets	<u>\$ 599,917</u>	<u>100</u>	<u>556,808</u>	<u>100</u>	<u>594,964</u>	<u>100</u>	Total liabilities and equity	<u>\$ 599,917</u>	<u>100</u>	<u>556,808</u>	<u>100</u>	<u>594,964</u>	<u>100</u>

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

Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2021 and 2020

(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,			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenues (notes 6(13) and 7)	\$ 171,633	100	183,298	100	530,041	100	454,086	100
Operating costs (notes 6(3), (8) and 12)	<u>115,145</u>	<u>67</u>	<u>140,377</u>	<u>77</u>	<u>355,941</u>	<u>67</u>	<u>342,287</u>	<u>75</u>
Gross profit	<u>56,488</u>	<u>33</u>	<u>42,921</u>	<u>23</u>	<u>174,100</u>	<u>33</u>	<u>111,799</u>	<u>25</u>
Operating expenses (notes 6(8), 7 and 12) :								
Selling	16,121	9	19,012	10	48,113	9	57,629	13
General and administrative	7,152	4	9,313	5	23,437	5	30,065	6
Research and development	<u>26,408</u>	<u>16</u>	<u>45,634</u>	<u>25</u>	<u>98,897</u>	<u>19</u>	<u>126,416</u>	<u>28</u>
Total operating expenses	<u>49,681</u>	<u>29</u>	<u>73,959</u>	<u>40</u>	<u>170,447</u>	<u>33</u>	<u>214,110</u>	<u>47</u>
Net operating gain (loss)	<u>6,807</u>	<u>4</u>	<u>(31,038)</u>	<u>(17)</u>	<u>3,653</u>	<u>-</u>	<u>(102,311)</u>	<u>(22)</u>
Non-operating income and expenses (note 6(15)) :								
Interest income	45	-	52	-	147	-	215	-
Other income	-	-	-	-	-	-	1,693	-
Other gains and losses	2,606	1	1,744	1	4,049	1	67,787	15
Finance costs (note 6(8))	<u>(451)</u>	<u>-</u>	<u>(143)</u>	<u>-</u>	<u>(996)</u>	<u>-</u>	<u>(669)</u>	<u>-</u>
Total non-operating income and expenses	<u>2,200</u>	<u>1</u>	<u>1,653</u>	<u>1</u>	<u>3,200</u>	<u>1</u>	<u>69,026</u>	<u>15</u>
Profit (loss) before income tax	9,007	5	(29,385)	(16)	6,853	1	(33,285)	(7)
Income tax expenses (note 6(10))	-	-	-	-	-	-	2,978	1
Net profit (loss) for the period	<u>9,007</u>	<u>5</u>	<u>(29,385)</u>	<u>(16)</u>	<u>6,853</u>	<u>1</u>	<u>(36,263)</u>	<u>(8)</u>
Other comprehensive income for the period (after tax)	-	-	-	-	-	-	-	-
Total comprehensive income for the period	<u>\$ 9,007</u>	<u>5</u>	<u>(29,385)</u>	<u>(16)</u>	<u>6,853</u>	<u>1</u>	<u>(36,263)</u>	<u>(8)</u>
Earnings per share (New Taiwan Dollars) (note 6(12))								
Basic earnings per share	<u>\$ 0.14</u>		<u>(0.45)</u>		<u>0.11</u>		<u>(0.56)</u>	
Diluted earnings per share	<u>\$ 0.14</u>		<u>(0.45)</u>		<u>0.11</u>		<u>(0.56)</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, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	<u>Common stock</u>	<u>Accumulated deficits</u>	<u>Total equity</u>
Balance as of January 1, 2020	\$ 808,596	(359,946)	448,650
Net loss for the period	-	(36,263)	(36,263)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(36,263)	(36,263)
Capital reduction to offset accumulated deficits	(161,719)	161,719	-
Balance as of September 30, 2020	<u>\$ 646,877</u>	<u>(234,490)</u>	<u>412,387</u>
Balance as of January 1, 2021	\$ 646,877	(274,742)	372,135
Net profit for the period	-	6,853	6,853
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	6,853	6,853
Balance as of September 30, 2021	<u>\$ 646,877</u>	<u>(267,889)</u>	<u>378,988</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30,	
	2021	2020
Cash flows from operating activities:		
Profit (loss) before income tax	\$ 6,853	(33,285)
Adjustments:		
Adjustments to reconcile (profit) loss:		
Depreciation	27,075	30,374
Amortization	11,627	8,732
Expected credit gain	(11)	(120)
Interest expense	996	669
Interest income	(147)	(215)
Gain on disposal of property, plant and equipment	(3,191)	(72,451)
Loss on sale-leasebacks	-	10,401
Provision for inventory devaluation (reversed) loss	(3,447)	39,014
Others	-	337
Total adjustments to reconcile loss (profit)	32,902	16,741
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(15,374)	1,246
Accounts receivable from related parties	10,781	3,272
Inventories	(100,303)	(73,708)
Other operating assets	3,449	3,456
Total changes in operating assets	(101,447)	(65,734)
Changes in operating liabilities:		
Accounts payable	(21,775)	29,497
Other operating liabilities	(8,694)	11,335
Total changes in operating liabilities	(30,469)	40,832
Total changes in operating assets and liabilities	(131,916)	(24,902)
Total adjustments	(99,014)	(8,161)
Cash flows used in operations	(92,161)	(41,446)
Interest received	150	220
Interest paid	(952)	(668)
Income taxes refunded	-	9
Income taxes paid	(160)	(4,073)
Net cash flows used in operating activities	(93,123)	(45,958)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(17,640)	(22,209)
Proceeds from disposal of property, plant and equipment	10,271	138,415
Decrease (increase) in refundable deposits	957	(378)
Acquisition of intangible assets	(9,185)	(7,948)
Increase in other current assets	(300)	-
Net cash flows (used in) from investing activities	(15,897)	107,880
Cash flows from financing activities:		
Proceeds from borrowings	288,125	119,431
Repayments of borrowings	(215,207)	(120,552)
Decrease in guarantee deposits received	(309)	(123)
Payment of lease liabilities	(8,242)	(6,774)
Net cash flows from (used in) financing activities	64,367	(8,018)
Net (decrease) increase in cash and cash equivalents for the period	(44,653)	53,904
Cash and cash equivalents at beginning of period	94,242	59,573
Cash and cash equivalents at end of period	\$ 49,589	113,477

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 nine months ended September 30, 2021 and 2020

**(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 4, 2021.

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 Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”
- Amendments to IFRS 16 “Covid-19 Related Rent Concessions beyond June 30, 2021”

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2022, would not have a significant on its consolidated financial statements:

- 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”

(Continued)

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

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

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

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, 2020. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2020.

- (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, 2020. For related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2020.

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

A. List of subsidiaries in the consolidated financial statements

Name of investor	Subsidiary	Main activities	Percentage of ownership (%)		
			September 30, 2021	December 31, 2020	September 30, 2020
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.

(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. 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, 2020.

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

6. Description of Significant Accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2020. Please refer to Note 6 of the 2020 annual consolidated financial statements.

(1) Cash and cash equivalents

	September 30, 2021	December 31, 2020	September 30, 2020
Cash on hand and petty cash	\$ 111	129	319
Checking and savings accounts	31,778	53,913	72,958
Time deposits	17,700	40,200	40,200
	<u>\$ 49,589</u>	<u>94,242</u>	<u>113,477</u>

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

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

	September 30, 2021	December 31, 2020	September 30, 2020	January 1, 2020
Accounts receivable (including receivables from related parties)	\$ 67,684	63,091	72,829	77,347
Less: loss allowance	(26)	(37)	(81)	(201)
	<u>\$ 67,658</u>	<u>63,054</u>	<u>72,748</u>	<u>77,146</u>
Accounts receivable, net	<u>\$ 29,322</u>	<u>13,937</u>	<u>21,238</u>	<u>22,364</u>
Accounts receivable from related parties, net	<u>\$ 38,336</u>	<u>49,117</u>	<u>51,510</u>	<u>54,782</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, 2021		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 67,496	0.039 %	26
Past due 1~89 days	188	-	-
Total	<u>\$ 67,684</u>		<u>26</u>

(Continued)

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

	December 31, 2020		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 63,085	0.059 %	37
Past due 1~89 days	6	- %	-
Total	\$ 63,091		37
	September 30, 2020		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 72,573	0.102 %	74
Past due 1~89 days	256	2.734 %	7
Total	\$ 72,829		81

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

	For the nine months ended September 30,	
	2021	2020
Beginning balance	\$ 37	201
Impairment loss reversed	(11)	(120)
Ending balance	\$ 26	81

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

(3) Inventories

	September 30, 2021	December 31, 2020	September 30, 2020
Raw materials	\$ 2,122	4,302	7,841
Work in process	122,954	139,519	140,458
Finished goods	169,943	47,469	41,412
Merchandise inventory	79	58	161
	\$ 295,098	191,348	189,872

(Continued)

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

The details of operating costs were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Cost of goods sold	\$ 103,454	128,357	345,807	294,035
Technical service cost	7,884	520	11,259	4,708
Provision for inventory devaluation loss (reversed)	2,280	11,500	(3,447)	39,014
Unallocated production overheads	1,527	-	3,422	4,558
Revenue from sale of scrap	-	-	(1,100)	(28)
	<u>\$ 115,145</u>	<u>140,377</u>	<u>355,941</u>	<u>342,287</u>

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

(4) Property, plant and equipment

	Land		Buildings		Machinery and equipment	Office and other equipment	Total
	Land	Buildings	Machinery and equipment	Office and other equipment	Total	Total	Total
Cost:							
Balance as of January 1, 2021	\$ -	-	140,319	35,938	176,257		
Additions	-	-	13,819	3,912	17,731		
Disposals and write-off	-	-	(18,080)	-	(18,080)		
Balance as of September 30, 2021	<u>\$ -</u>	<u>-</u>	<u>136,058</u>	<u>39,850</u>	<u>175,908</u>		
Balance as of January 1, 2020	\$ 34,271	73,851	156,288	17,592	282,002		
Additions	-	-	7,993	15,692	23,685		
Disposals and write-off	(34,271)	(73,851)	(163)	-	(108,285)		
Reclassification	-	-	(2,590)	2,500	(90)		
Balance as of September 30, 2020	<u>\$ -</u>	<u>-</u>	<u>161,528</u>	<u>35,784</u>	<u>197,312</u>		
Accumulated depreciation:							
Balance as of January 1, 2021	\$ -	-	65,655	15,272	80,927		
Depreciation for the period	-	-	12,904	4,610	17,514		
Disposals and write-off	-	-	(11,000)	-	(11,000)		
Balance as of September 30, 2021	<u>\$ -</u>	<u>-</u>	<u>67,559</u>	<u>19,882</u>	<u>87,441</u>		
Balance as of January 1, 2020	\$ -	20,703	66,632	8,449	95,784		
Depreciation for the period	-	900	17,083	4,955	22,938		
Disposals and write-off	-	(21,603)	(163)	-	(21,766)		
Balance as of September 30, 2020	<u>\$ -</u>	<u>-</u>	<u>83,552</u>	<u>13,404</u>	<u>96,956</u>		

(Continued)

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Book value:					
Balance as of January 1, 2021	\$ -	-	74,664	20,666	95,330
Balance as of September 30, 2021	\$ -	-	68,499	19,968	88,467
Balance as of January 1, 2020	\$ 34,271	53,148	89,656	9,143	186,218
Balance as of September 30, 2020	\$ -	-	77,976	22,380	100,356

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, 2021	\$ 38,698
Additions	2,223
Decreases	(1,167)
Balance as of September 30, 2021	<u>\$ 39,754</u>
Balance as of January 1, 2020	\$ 12,907
Additions	38,698
Decreases	(12,907)
Balance as of September 30, 2020	<u>\$ 38,698</u>
Accumulated depreciation:	
Balance as of January 1, 2021	\$ 6,338
Depreciation for the period	9,561
Additions	(1,167)
Balance as of September 30, 2021	<u>\$ 14,732</u>
Balance as of January 1, 2020	\$ 8,781
Depreciation for the period	7,436
Decreases	(12,907)
Balance as of September 30, 2020	<u>\$ 3,310</u>
Book value:	
Balance as of January 1, 2021	<u>\$ 32,360</u>
Balance as of September 30, 2021	<u>\$ 25,022</u>
Balance as of January 1, 2020	<u>\$ 4,126</u>
Balance as of September 30, 2020	<u>\$ 35,388</u>

(Continued)

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

(6) Intangible assets

	<u>Computer software</u>	<u>Patent and technology license fee</u>	<u>Total</u>
Cost:			
Balance as of January 1, 2021	\$ 20,354	33,846	54,200
Additions	<u>7,360</u>	<u>1,825</u>	<u>9,185</u>
Balance as of September 30, 2021	<u>\$ 27,714</u>	<u>35,671</u>	<u>63,385</u>
Balance as of January 1, 2020	\$ 14,350	34,427	48,777
Additions	6,756	1,192	7,948
Reclassification	<u>-</u>	<u>(247)</u>	<u>(247)</u>
Balance as of September 30, 2020	<u>\$ 21,106</u>	<u>35,372</u>	<u>56,478</u>
Accumulated amortization:			
Balance as of January 1, 2021	\$ 12,966	14,797	27,763
Amortization for the period	<u>7,274</u>	<u>4,353</u>	<u>11,627</u>
Balance as of September 30, 2021	<u>\$ 20,240</u>	<u>19,150</u>	<u>39,390</u>
Balance as of January 1, 2020	\$ 6,306	12,357	18,663
Amortization for the period	<u>4,945</u>	<u>3,787</u>	<u>8,732</u>
Balance as of September 30, 2020	<u>\$ 11,251</u>	<u>16,144</u>	<u>27,395</u>
Book value:			
Balance as of January 1, 2021	<u>\$ 7,388</u>	<u>19,049</u>	<u>26,437</u>
Balance as of September 30, 2021	<u>\$ 7,474</u>	<u>16,521</u>	<u>23,995</u>
Balance as of January 1, 2020	<u>\$ 8,044</u>	<u>22,070</u>	<u>30,114</u>
Balance as of September 30, 2020	<u>\$ 9,855</u>	<u>19,228</u>	<u>29,083</u>

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

(7) Short-term borrowings

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Unsecured bank loans	<u>\$ 107,334</u>	<u>34,416</u>	<u>41,879</u>
Unused credit lines	<u>\$ 2,741</u>	<u>75,930</u>	<u>17,221</u>
Range of interest rates	<u>1.15%~2.05%</u>	<u>0.90%~1.37%</u>	<u>1.05%~2.05%</u>

(Continued)

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

(8) Lease liabilities

The carry amount of lease liabilities was as follows:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>September 30,</u> <u>2020</u>
Current	\$ <u>8,796</u>	<u>9,069</u>	<u>9,330</u>
Non-current	\$ <u>8,621</u>	<u>14,367</u>	<u>16,598</u>

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

The amounts recognized in profit or loss was as follows:

	<u>For the three months ended</u> <u>September 30,</u>		<u>For the nine months ended</u> <u>September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Interest on lease liabilities	\$ <u>80</u>	<u>83</u>	<u>240</u>	<u>120</u>
Expenses relating to short-term leases	\$ <u>5</u>	<u>-</u>	<u>5</u>	<u>380</u>

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

	<u>For the nine months ended</u> <u>September 30,</u>	
	<u>2021</u>	<u>2020</u>
Total cash outflow for leases	\$ <u>8,487</u>	<u>7,274</u>

A. Information of lease

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.

B. Sale and leaseback

On June 3, 2020, the Company sold land and buildings and leased the reserved office back for 5 years. The Company has the priority right to lease the buildings at the end of the contract term.

(9) Employee benefit

Given there were no significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off event in the prior fiscal year, the pension costs in the financial statements are measured and disclosed according to the actuarial results determined on December 31, 2020 and 2019.

For the information related to the Company's pension costs for the nine months ended September 30, 2021 and 2020, please refer to note 12.

(Continued)

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

(10) Income tax

A. The amount income tax expense was as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Current tax expense	\$ -	-	-	2,978

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

(11) Capital and other equity

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

As of September 30, 2021, December 31, 2020, and September 30, 2020, the authorized capital are \$1,200,000 according to the 3S's Articles of Incorporation (Among the authorized capital, the \$100,000 is used for the issuance of employee stock option certificates) The paid-in capital are \$646,877 thousand dollars, and with par value of \$10 per share.

Except as described in the following paragraph, there were no significant changes in the Company's capital and other equity for the nine months ended September 30, 2021 and 2020. For related information about the stockholders' equity, please refer to note 6(12) of the consolidated financial statements for the year ended December 31, 2020.

The deficit compensation for 2020 and 2019 which was approved during the stockholders' meeting held on July 8, 2021 and June 18, 2020, respectively, was consistent with the resolution approved by the Board of Directors.

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

A resolution was approved during the meeting of Board of Directors held on August 18, 2021, for the issuance of 10,000 new shares for cash, and with par value of \$10 (dollars) per share, amounting to \$100,000. The Company has received approval from the FSC No. 110358456 for capital increase on October 13, 2021. The date will be registered with the government authorities on November 6, 2021. The relevant registration procedures have yet to be completed during the period.

(Continued)

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

(12) Earnings per share

The Company calculated the EPS as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Basic and diluted earnings per share:				
Net income (loss) attributable to 3S's stockholders	\$ <u>9,007</u>	<u>(29,385)</u>	<u>6,853</u>	<u>(36,263)</u>
Weighted average common stocks outstanding (thousand shares)	<u>64,688</u>	<u>64,688</u>	<u>64,688</u>	<u>64,688</u>
Basic and diluted EPS (TWD) \$	<u>0.14</u>	<u>(0.45)</u>	<u>0.11</u>	<u>(0.56)</u>

Since 3S incurred a net loss for the nine month ended September 30, 2021 and 2020, there were no dilutive potential ordinary shares for the period.

(13) Revenue from contracts with customers

A. Disaggregation of revenue

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Primary geographical markets				
America	\$ 65,958	81,088	199,555	201,436
China	33,687	48,372	134,900	94,791
Taiwan	35,804	33,326	130,317	76,413
North-east Asia	36,115	15,980	56,100	70,201
Others	69	4,532	9,169	11,245
	<u>\$ 171,633</u>	<u>183,298</u>	<u>530,041</u>	<u>454,086</u>
Major products				
Revenue from IC	\$ 157,252	177,974	498,808	409,645
Technical service income	14,381	5,324	31,233	44,441
	<u>\$ 171,633</u>	<u>183,298</u>	<u>530,041</u>	<u>454,086</u>

(Continued)

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

B. Contract balances

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>	<u>January 1, 2020</u>
Contract asset:				
Contract asset— service income	\$ <u> -</u>	<u> 1,413</u>	<u> 1,460</u>	<u> 4,347</u>
Contract liabilities:				
Contract liabilities— advance receipts	\$ <u> 1,171</u>	<u> 4,204</u>	<u> 804</u>	<u> 1,174</u>

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

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

The amounts of revenue recognized for the nine months ended September 30, 2021 and 2020 that were included in the contract liability balance at the beginning of the period were \$3,400 and \$58, respectively.

(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 nine months ended September 30, 2021, 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 nine month ended September 30, 2020, 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 September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Interest income from bank deposits	\$ 37	41	122	170
Other interest income	8	11	25	45
	<u>\$ 45</u>	<u>52</u>	<u>147</u>	<u>215</u>

B. Other income

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Rental income	\$ -	-	-	1,693

C. Other gains and losses

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Gain on disposals of property, plant and equipment	\$ 2,012	-	3,191	72,451
Loss on sale-leasebacks	-	-	-	(10,401)
Foreign exchange (losses) gains, net	291	(1,267)	(85)	(1,524)
Government grants	2	2,893	19	10,219
Others	301	118	924	(2,958)
	<u>\$ 2,606</u>	<u>1,744</u>	<u>4,049</u>	<u>67,787</u>

D. Finance costs

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Interest expense – short-term borrowings and other	\$ 371	60	756	549
Interest expense – lease liabilities	80	83	240	120
	<u>\$ 451</u>	<u>143</u>	<u>996</u>	<u>669</u>

(Continued)

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

(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, 2020.

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>
September 30, 2021				
Non-derivative financial liabilities				
Short-term borrowings	\$ 107,334	107,619	107,619	-
Accounts payable	29,466	29,466	29,466	-
Accrued payroll and bonus	11,898	11,898	11,898	-
Other accrued expenses	44,912	44,912	44,912	-
Lease liabilities (included in current and non-current)	17,417	17,745	8,958	8,787
Guarantee deposits received	618	618	-	618
	<u>\$ 211,645</u>	<u>212,258</u>	<u>202,853</u>	<u>9,405</u>
December 31, 2020				
Non-derivative financial liabilities				
Short-term borrowings	\$ 34,416	34,509	34,509	-
Accounts payable	51,241	51,241	51,241	-
Accrued payroll and bonus	17,170	17,170	17,170	-
Other accrued expenses	45,742	45,742	45,742	-
Lease liabilities (included in current and non-current)	23,436	23,985	9,334	14,651
Guarantee deposits received	927	927	-	927
	<u>\$ 172,932</u>	<u>173,574</u>	<u>157,996</u>	<u>15,578</u>
September 30, 2020				
Non-derivative financial liabilities				
Short-term borrowings	\$ 41,879	41,956	41,956	-
Accounts payable	46,480	46,480	46,480	-
Accrued payroll and bonus	8,996	8,996	8,996	-
Other accrued expenses	47,722	47,722	47,722	-
Lease liabilities (included in current and non-current)	25,928	26,563	9,628	16,935
Guarantee deposits received	927	927	-	927
	<u>\$ 171,932</u>	<u>172,644</u>	<u>154,782</u>	<u>17,862</u>

(Continued)

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

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, 2021</u>			<u>December 31, 2020</u>			<u>September 30, 2020</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	\$	2,725	27.84	75,864	2,909	28.48	82,848	3,870	29.10	112,617
<u>Financial liabilities</u>										
<u>Monetary items</u>										
USD		2,133	27.84	59,383	2,979	28.48	84,842	2,392	29.10	69,607

(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, 2021 and 2020, would have decreased or increased the net loss by \$132 and \$344, 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:

	<u>For the three months ended September 30,</u>				<u>For the nine months ended September 30,</u>			
	<u>2021</u>		<u>2020</u>		<u>2021</u>		<u>2020</u>	
	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>	<u>Foreign exchange gains (losses)</u>	<u>Average rate</u>
USD	\$ <u>291</u>	<u>-</u>	<u>(1,267)</u>	<u>-</u>	<u>(85)</u>	<u>-</u>	<u>(1,524)</u>	<u>-</u>

(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:

	Carrying Amount	September 30, 2021			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 49,589	-	-	-	-
Accounts receivable (including receivables from related parties)	67,658	-	-	-	-
Refundable deposits	7,307	-	-	-	-
	<u>\$ 124,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 107,334	-	-	-	-
Accounts payable	29,466	-	-	-	-
Accrued payroll and bonus	11,898	-	-	-	-
Other accrued expenses	44,912	-	-	-	-
Lease liabilities (included current and non-current)	17,417	-	-	-	-
Guarantee deposits received	618	-	-	-	-
	<u>\$ 211,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2020					
	Carrying Amount	Fair value			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 94,242	-	-	-	-
Accounts receivable (including receivables from related parties)	63,054	-	-	-	-
Refundable deposits	8,264	-	-	-	-
	<u>\$ 165,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	December 31, 2020				
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 34,416	-	-	-	-
Accounts payable	51,241	-	-	-	-
Accrued payroll and bonus	17,170	-	-	-	-
Other accrued expenses	45,742	-	-	-	-
Lease liabilities (included current and non-current)	23,436	-	-	-	-
Guarantee deposits received	927	-	-	-	-
	<u>\$ 172,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	September 30, 2020				
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 113,477	-	-	-	-
Accounts receivable (including receivables from related parties)	72,748	-	-	-	-
Refundable deposits	8,357	-	-	-	-
	<u>\$ 194,582</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 41,879	-	-	-	-
Accounts payable	46,480	-	-	-	-
Accrued payroll and bonus	8,996	-	-	-	-
Other accrued expenses	47,722	-	-	-	-
Lease liabilities (included in current and non-current)	25,928	-	-	-	-
Guarantee deposits received	927	-	-	-	-
	<u>\$ 171,932</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 are evaluated based on the discounted cash flow of the financial assets and liabilities.

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

(Continued)

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

- (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.

- (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, 2020.

- (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, 2020. There were no significant changes in quantified factors of capital management from those in the consolidated financial statement for the year ended December 31, 2020. For related information about the capital management, please refer to note 6(19) of the consolidated financial statements for the year ended December 31, 2020.

- (19) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	Short-term borrowings	Lease liabilities	Guarantee deposits received	Total liabilities from financing activities
Balance as of January 1, 2021	\$ 34,416	23,436	927	58,779
Cash flows:				
Proceeds from borrowings	288,125	-	-	288,125
Repayments of borrowings	(215,207)	-	-	(215,207)
Payment of lease liabilities	-	(8,242)	-	(8,242)
Interest paid	-	(240)	-	(240)
Decrease in guarantee deposits received	-	-	(309)	(309)
Non-cash flows:				
Increase in lease liabilities	-	2,223	-	2,223
Interest expense	-	240	-	240
Balance as of September 30, 2021	<u>\$ 107,334</u>	<u>17,417</u>	<u>618</u>	<u>125,369</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, 2020	\$ 43,000	4,158	1,050	48,208
Cash flows:				
Proceeds from borrowings	119,431	-	-	119,431
Repayments of borrowings	(120,552)	-	-	(120,552)
Repayments of lease liabilities	-	(6,774)	-	(6,774)
Interest paid	-	(120)	-	(120)
Decrease in guarantee deposits received	-	-	(123)	(123)
Non-cash flows:				
Increase in lease liabilities	-	28,544	-	28,544
Interest expense	-	120	-	120
Balance as of September 30, 2020	<u>\$ 41,879</u>	<u>25,928</u>	<u>927</u>	<u>68,734</u>

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 September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Other related-parties:				
KDIL	\$ 65,959	76,699	199,370	188,350
KIC	35,179	15,980	52,191	70,201
	<u>\$ 101,138</u>	<u>92,679</u>	<u>251,561</u>	<u>258,551</u>

(Continued)

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

B. Accounts receivable from related parties

<u>Related Party Category</u>	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Other related-parties:			
KDIL	\$ 18,121	38,067	46,023
KIC	<u>20,215</u>	<u>11,050</u>	<u>5,487</u>
	<u>\$ 38,336</u>	<u>49,117</u>	<u>51,510</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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Short-term employee benefits	\$ 814	2,545	3,849	8,232
Post-employment benefits	<u>81</u>	<u>81</u>	<u>243</u>	<u>243</u>
	<u>\$ 895</u>	<u>2,626</u>	<u>4,092</u>	<u>8,475</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, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Time deposits (recorded in other current financial assets)	Customs duty guarantee	\$ 900	300	300
Refundable deposits	Warranty guarantee	<u>4,547</u>	<u>5,500</u>	<u>5,500</u>
		<u>\$ 5,447</u>	<u>5,800</u>	<u>5,800</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
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10. Significant Disaster Losses: None.

11. Significant Subsequent Events: None.

12. Others

- (1) The Company incurred a net loss amounting to \$267,889 as of September 30, 2021. The Company intends to adopt the following countermeasures to maintain the Company's operation:

A. Marketing plans

- (a) Continue optimizing customer and product portfolios in order to provide higher value added and profitable services.
- (b) Continue to enhance operation efficiency through improving material cost management and production efficiency to maximize profits.

B. Financial structure improve plans

- (a) Enforce inventory management, observe the sales status and adjust inventory levels when necessary and close out the slow-moving inventory in order to reduce the stock risk and capital lying idle.
 - (b) Propose to dispose the assets in order to enrich working capital.
 - (c) Plan to issue of new common shares for cash in private placement or public, in order to have sound financial structure and enrich working capital.
 - (d) Control the labor expenditure, and review and improve the daily expenses in order to avoid unnecessary expenses at all costs.
- (2) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function	For the three months ended September 30, 2021			For the three months ended September 30, 2020		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	689	24,569	25,258	437	41,756	42,193
Labor and health insurance	76	2,697	2,773	48	2,938	2,986
Pension	39	1,749	1,788	23	1,969	1,992
Others	47	1,277	1,324	38	1,721	1,759
Depreciation	3,432	5,240	8,672	4,557	6,011	10,568
Amortization	-	3,806	3,806	-	3,700	3,700

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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By function	For the nine months ended September 30, 2021			For the nine months ended September 30, 2020		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	1,989	91,793	93,782	1,337	123,768	125,105
Labor and health insurance	213	8,699	8,912	143	9,361	9,504
Pension	108	5,324	5,432	70	6,073	6,143
Others	143	4,336	4,479	104	4,807	4,911
Depreciation	11,158	15,917	27,075	14,041	16,333	30,374
Amortization	-	11,627	11,627	-	8,732	8,732

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.