

Solid State System Co., Ltd. and Subsidiaries

Consolidated Financial Statements

**With Independent Auditors' Review Report
for the Three Months Ended March 31, 2019 and 2018**

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



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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Solid State System Co., Ltd. ("3S") and its subsidiaries (together referred to as the "Company") as of March 31, 2019 and 2018, the related consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2019 and 2018, and of its consolidated financial performance for the three and three months ended March 31, 2019 and 2018, as well as its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)

May 9, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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 March 31, 2019 and 2018

Solid State System Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

March 31, 2019, December 31 and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

| | March 31, 2019 | | December 31, 2018 | | March 31, 2018 | | March 31, 2019 | | December 31, 2018 | | March 31, 2018 | |
|--|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| Assets | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | |
| Cash and cash equivalents (note 6(1)) | \$ 73,316 | 11 | 33,899 | 4 | 36,580 | 6 | \$ 63,000 | 9 | 71,000 | 10 | - | - |
| Current financial assets at fair value through profit or loss (note 6(2)) | - | - | 45 | - | - | - | 28 | - | - | - | 1 | - |
| Accounts receivable, net (note 6(3)) | 10,569 | 2 | 26,934 | 4 | 22,939 | 4 | 787 | - | - | - | 3,461 | - |
| Accounts receivable from related parties, net (notes 6(3) and 7) | 49,720 | 7 | 102,443 | 14 | 41,076 | 7 | 24,662 | 4 | 54,797 | 7 | 18,635 | 3 |
| Inventories (note 6(4)) | 236,397 | 36 | 246,412 | 33 | 139,774 | 22 | 9,311 | 2 | 14,922 | 2 | 9,792 | 2 |
| Other current financial assets (notes 6(1), (5) and 8) | 2,503 | - | 65,980 | 9 | 115,631 | 17 | 39,513 | 6 | 42,142 | 6 | 31,942 | 5 |
| Other current assets | 9,439 | 2 | 12,573 | 2 | 6,697 | 1 | 137,301 | 21 | 182,861 | 25 | 63,831 | 10 |
| | <u>381,944</u> | <u>58</u> | <u>488,286</u> | <u>66</u> | <u>362,697</u> | <u>57</u> | <u>205</u> | <u>-</u> | <u>205</u> | <u>-</u> | <u>364</u> | <u>-</u> |
| Non-current assets: | | | | | | | | | | | | |
| Property, plant and equipment (notes 6(6) and 8) | 198,876 | 30 | 198,647 | 26 | 202,472 | 33 | 3,179 | - | 1,115 | - | 726 | - |
| Right-of-use assets (note 6(7)) | 10,712 | 2 | - | - | - | - | 3,384 | - | 1,320 | - | 1,090 | - |
| Intangible assets (note 6(8)) | 29,452 | 4 | 23,644 | 3 | 20,721 | 3 | 140,685 | 21 | 184,181 | 25 | 64,921 | 10 |
| Deferred tax assets | 29,860 | 5 | 29,860 | 4 | 29,007 | 5 | 808,596 | 122 | 808,596 | 107 | 808,596 | 129 |
| Refundable deposits (note 8) | 7,959 | 1 | 7,952 | 1 | 7,882 | 1 | (286,058) | (43) | (239,974) | (32) | (244,947) | (39) |
| Net defined benefit asset, non-current (note 6(12)) | 884 | - | 884 | - | 1,719 | - | 522,538 | 79 | 568,622 | 75 | 563,649 | 90 |
| Other non-current financial assets | 3,536 | - | 3,530 | - | 4,072 | 1 | - | - | - | - | - | - |
| | <u>281,279</u> | <u>42</u> | <u>264,517</u> | <u>34</u> | <u>265,873</u> | <u>43</u> | <u>663,223</u> | <u>100</u> | <u>752,803</u> | <u>100</u> | <u>628,570</u> | <u>100</u> |
| Total assets | \$ <u>663,223</u> | <u>100</u> | \$ <u>752,803</u> | <u>100</u> | \$ <u>628,570</u> | <u>100</u> | \$ <u>663,223</u> | <u>100</u> | \$ <u>752,803</u> | <u>100</u> | \$ <u>628,570</u> | <u>100</u> |
| Liabilities and Equity | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | |
| Short-term borrowings (notes 6(9) and 8) | | | | | | | | | | | | |
| Current financial liabilities at fair value through profit or loss (note 6(2)) | | | | | | | | | | | | |
| Current contract liabilities | | | | | | | | | | | | |
| Accounts payable | | | | | | | | | | | | |
| Accrued payroll and bonus | | | | | | | | | | | | |
| Other current liabilities (note 6(10)) | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Non-current liabilities: | | | | | | | | | | | | |
| Deferred tax liabilities | | | | | | | | | | | | |
| Other non-current liabilities (note 6(10)) | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Total liabilities | | | | | | | | | | | | |
| Equity (note 6(14)): | | | | | | | | | | | | |
| Common stock | | | | | | | | | | | | |
| Accumulated deficits | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Total equity | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Total liabilities and equity | | | | | | | | | | | | |

See accompanying notes to consolidated financial statements.

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

Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

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

| | For the three months ended March 31, | | | |
|--|---|-------------|-----------------|-------------|
| | 2019 | | 2018 | |
| | Amount | % | Amount | % |
| Operating revenues (notes 6(16) and 7) | \$ 142,501 | 100 | 134,735 | 100 |
| Operating costs (notes 6(4), (10) and 12) | <u>118,803</u> | <u>83</u> | <u>98,042</u> | <u>73</u> |
| Gross profit | <u>23,698</u> | <u>17</u> | <u>36,693</u> | <u>27</u> |
| Operating expenses (notes 6(10), 7 and 12): | | | | |
| Selling | 17,971 | 13 | 13,377 | 10 |
| General and administrative | 9,830 | 7 | 11,387 | 8 |
| Research and development | <u>42,111</u> | <u>30</u> | <u>40,077</u> | <u>30</u> |
| Total operating expenses | <u>69,912</u> | <u>50</u> | <u>64,841</u> | <u>48</u> |
| Net operating loss | <u>(46,214)</u> | <u>(33)</u> | <u>(28,148)</u> | <u>(21)</u> |
| Non-operating income and expenses (note 6(18)): | | | | |
| Other income | 113 | - | 295 | - |
| Other gains and losses, net | 334 | - | (1,989) | (1) |
| Finance costs (note 6(10)) | <u>(317)</u> | <u>-</u> | <u>(20)</u> | <u>-</u> |
| Total non-operating income and expenses | <u>130</u> | <u>-</u> | <u>(1,714)</u> | <u>(1)</u> |
| Loss before tax | (46,084) | (33) | (29,862) | (22) |
| Income tax benefits (note 6(13)) | <u>-</u> | <u>-</u> | <u>(4,296)</u> | <u>(3)</u> |
| Net loss for the period | <u>(46,084)</u> | <u>(33)</u> | <u>(25,566)</u> | <u>(19)</u> |
| Other comprehensive income for the period (after tax) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total comprehensive income for the period | <u>\$ (46,084)</u> | <u>(33)</u> | <u>(25,566)</u> | <u>(19)</u> |
| Earnings per share (New Taiwan Dollars) (note 6(15)) | | | | |
| Basic earnings per share | <u>\$ (0.57)</u> | | <u>(0.32)</u> | |
| Diluted earnings per share | <u>\$ (0.57)</u> | | <u>(0.32)</u> | |

See accompanying notes to consolidated financial statements.

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Solid State System Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the three months ended March 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

| | <u>Common stock</u> | <u>Accumulated deficits</u> | <u>Total equity</u> |
|---|---------------------|---------------------------------|---------------------|
| Balance as of January 1, 2018 | \$ <u>808,596</u> | <u>(219,381)</u> | <u>589,215</u> |
| Net loss for the period | - | (25,566) | (25,566) |
| Other comprehensive income for the period | - | - | - |
| Total comprehensive income for the period | - | (25,566) | (25,566) |
| Balance as of March 31, 2018 | <u>\$ 808,596</u> | <u>(244,947)</u> | <u>563,649</u> |
| Balance as of January 1, 2019 | \$ <u>808,596</u> | <u>(239,974)</u> | <u>568,622</u> |
| Net loss for the period | - | (46,084) | (46,084) |
| Other comprehensive income for the period | - | - | - |
| Total comprehensive income for the period | - | (46,084) | (46,084) |
| Balance as of March 31, 2019 | <u>\$ 808,596</u> | <u>(286,058)</u> | <u>522,538</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 three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

| | For the three months ended March 31, | |
|---|---|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Loss before tax | \$ (46,084) | (29,862) |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation | 9,811 | 6,839 |
| Amortization | 1,828 | 2,085 |
| Expected credit loss (gain) | (302) | 238 |
| Interest expense | 317 | 20 |
| Interest income | (113) | (295) |
| Provision for inventory devaluation loss | 18,479 | 6,423 |
| Others | - | 214 |
| Total adjustments to reconcile profit (loss) | 30,020 | 15,524 |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Financial assets at fair value through profit or loss, mandatorily measured at fair value | 45 | - |
| Accounts receivable | 16,667 | (8,402) |
| Accounts receivable from related parties | 52,723 | 39,952 |
| Inventories | (8,464) | (14,179) |
| Other operating assets | 3,090 | 3,230 |
| Total changes in operating assets | 64,061 | 20,601 |
| Changes in operating liabilities: | | |
| Financial liabilities held for trading | 28 | 1 |
| Accounts payable | (30,135) | 7,135 |
| Other operating liabilities | (19,377) | (8,335) |
| Total changes in operating liabilities | (49,484) | (1,199) |
| Total changes in operating assets and liabilities | 14,577 | 19,402 |
| Total adjustments | 44,597 | 34,926 |
| Cash flows from (used in) operations | (1,487) | 5,064 |
| Interest received | 128 | 268 |
| Interest paid | (311) | (20) |
| Income taxes paid | - | (2) |
| Net cash flows from (used in) operating activities | (1,670) | 5,310 |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (4,502) | (14,865) |
| Decrease (increase) in refundable deposits | (7) | 86 |
| Acquisition of intangible assets | (7,729) | (2,741) |
| Decrease in other current financial assets | 63,500 | - |
| Net cash flows from (used in) investing activities | 51,262 | (17,520) |
| Cash flows from financing activities: | | |
| Proceeds from short-term borrowings | 22,000 | - |
| Repayments of short-term borrowings | (30,000) | - |
| Payment of lease liabilities | (2,175) | - |
| Net cash flows used in financing activities | (10,175) | - |
| Net increase (decrease) in cash and cash equivalents for the period | 39,417 | (12,210) |
| Cash and cash equivalents at beginning of period | 33,899 | 48,790 |
| Cash and cash equivalents at end of period | \$ 73,316 | 36,580 |

See accompanying notes to consolidated financial statements.

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

Solid State System Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

**(Expressed in Thousands of New Taiwan Dollars,
Except for Earnings Per Share Information and Unless Otherwise Specified)**

1. Company History

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

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

2. Approval Date and Procedures of the Financial Statements

The consolidated financial statements were reported to the Board of Directors and issue on May 9, 2019.

3. New Standards and Interpretations Adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

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

A. IFRS 16 Leases

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

(Continued)

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

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

(i) Definition of a lease

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

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

(ii) As a lessee

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

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

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

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

(Continued)

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

(iii) Impacts on financial statements

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

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

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

B. The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

| New Standards, Interpretations and Amendments | Effective date per IASB |
|---|---|
| Amendments to IFRS 3 <i>Definition of a Business</i> | January 1, 2020 |
| Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i> | Effective date to be determined by IASB |
| IFRS 17 <i>Insurance Contracts</i> | January 1, 2021 |
| Amendments to IAS 1 and IAS 8 <i>Definition of Material</i> | January 1, 2020 |

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

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

4. Summary of Significant Accounting Policies

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the *Regulations Governing the Preparation of Financial Reports by Securities Issuers* (hereinafter referred to as the Regulations) and the guidelines of IAS 34 *Interim Financial Reporting* (hereinafter referred to as IAS 34) which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and by the IFRSs, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except as described in the following paragraph, the Company's significant accounting policies are applied consistently with the consolidated financial statements for the year ended December 31, 2018. For related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

(2) Basis of consolidation

The principle of preparation of the consolidated financial statements is consistent with those of the consolidated financial statements for the year ended December 31, 2018. For related information, please refer to note 4(3) of the consolidated financial statements for the year ended December 31, 2018.

A. List of subsidiaries in the consolidated financial statements

| Name of investor | Subsidiary | Main activities | Percentage of ownership (%) | | |
|------------------|------------------------------------|---|-----------------------------|-------------------|----------------|
| | | | March 31, 2019 | December 31, 2018 | March 31, 2018 |
| 3S | ViCHIP Corporation Limited(ViCHIP) | Operating electronic components manufacturing, wholesaling, sales and product design business | 100 % | 100 % | 100 % |

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

(3) Leases (applicable from January 1, 2019)

A. Identifying a lease

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

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

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

B. As a lessee

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

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

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

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

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

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

- there is a change in future lease payments arising from the change in an index or rate; or

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the assessment regarding the purchase option; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications.

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

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

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

C. As a lessor

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

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

(4) Income tax

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

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

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

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

(5) Employee benefits

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 endorsed by the FSC) requires management to make judgments, estimations and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, the major sources of accounting judgments, estimations and assumptions of uncertainty are applied consistently with note 5 to the consolidated financial statements for the year ended December 31, 2018.

6. Description of Significant Accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2018. Please refer to Note 6 of the 2018 annual consolidated financial statements.

(1) Cash and cash equivalents

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|-------------------------------|---------------------------------|------------------------------------|---------------------------------|
| Cash on hand and petty cash | \$ 209 | 323 | 326 |
| Checking and savings accounts | 20,407 | 31,176 | 33,354 |
| Time deposits | <u>52,700</u> | <u>2,400</u> | <u>2,900</u> |
| | <u>\$ 73,316</u> | <u>33,899</u> | <u>36,580</u> |

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

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

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

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

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|--|---------------------------|------------------------------|---------------------------|
| Mandatorily measured at fair value through profit or loss: | | | |
| Foreign currency forward contracts | \$ <u> -</u> | <u> 45</u> | <u> -</u> |
| Held-for-trading financial liabilities: | | | |
| Foreign currency forward contracts | \$ <u> (28)</u> | <u> -</u> | <u> (1)</u> |

The Company held derivative financial instruments to manage its foreign currency exchange risk resulting from operations. The Company held the following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss and held-for-trading financial liabilities on March 31, 2019, December 31 and March 31, 2018:

Unit: foreign currency thousand

| March 31, 2019 | | | |
|---|------------------------|----------------------|---------------------------------------|
| | Contract amount | Currency | Maturity date |
| Sell— forward foreign currency exchange contracts | USD 300 | Sell USD/ Buy TWD | April 3, 2019 |
| December 31, 2018 | | | |
| | Contract amount | Currency | Maturity date |
| Sell— forward foreign currency exchange contracts | USD 600 | Sell USD/ Buy TWD | January 16, 2019~ January 23, 2019 |
| March 31, 2018 | | | |
| | Contract amount | Currency | Maturity date |
| Sell— forward foreign currency exchange contracts | USD 300 | Sell USD/ Buy TWD | April 18, 2018 |

(Continued)

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

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

| | <u>March 31, 2019</u> | <u>December 31, 2018</u> | <u>March 31, 2018</u> |
|---|---------------------------|------------------------------|---------------------------|
| Accounts receivable | \$ 60,347 | 129,737 | 64,320 |
| Less: loss allowance | <u>(58)</u> | <u>(360)</u> | <u>(305)</u> |
| | <u>\$ 60,289</u> | <u>129,377</u> | <u>64,015</u> |
| Accounts receivable, net | <u>\$ 10,569</u> | <u>26,934</u> | <u>22,939</u> |
| Accounts receivable from related parties, net | <u>\$ 49,720</u> | <u>102,443</u> | <u>41,076</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 loss allowance for accounts receivable (including accounts receivable and receivables from related parties) was determined as follows:

| March 31, 2019 | | | |
|-----------------------------|----------------------------------|---------------------------------------|-----------------------|
| | <u>Gross carrying amount</u> | <u>Weighted-average loss rate</u> | <u>Loss allowance</u> |
| Not past due | \$ 57,665 | 0.064 % | 37 |
| Past due 1~89 days | 2,652 | 0.415 % | 11 |
| More than 180 days past due | <u>30</u> | 33.333 % | <u>10</u> |
| Total | <u>\$ 60,347</u> | | <u>58</u> |
| December 31, 2018 | | | |
| | <u>Gross carrying amount</u> | <u>Weighted-average loss rate</u> | <u>Loss allowance</u> |
| Not past due | \$ 122,242 | 0.200 % | 244 |
| Past due 1~89 days | 5,074 | 0.020 % | 1 |
| Past due 90~180 days | 2,071 | - | - |
| More than 180 days past due | <u>350</u> | 32.857 % | <u>115</u> |
| Total | <u>\$ 129,737</u> | | <u>360</u> |
| March 31, 2018 | | | |
| | <u>Gross carrying amount</u> | <u>Weighted-average loss rate</u> | <u>Loss allowance</u> |
| Not past due | \$ 60,077 | 0.451 % | 271 |
| Past due 1~89 days | 4,217 | 0.806 % | 34 |
| Past due 90~180 days | <u>26</u> | - | <u>-</u> |
| Total | <u>\$ 64,320</u> | | <u>305</u> |

(Continued)

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

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

| | For the three months ended March 31, | |
|---------------------------------------|---|-------------|
| | 2019 | 2018 |
| Beginning balance | \$ 360 | 67 |
| Impairment loss recognized (reversed) | (302) | 238 |
| Ending balance | \$ 58 | 305 |

(4) Inventories

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|-----------------------|---------------------------|------------------------------|---------------------------|
| Raw materials | \$ 34,853 | 36,707 | 520 |
| Work in process | 125,481 | 110,126 | 82,299 |
| Finished goods | 71,013 | 99,541 | 56,948 |
| Merchandise inventory | 5,050 | 38 | 7 |
| | \$ 236,397 | 246,412 | 139,774 |

The details of operating costs were as follows:

| | For the three months ended March 31, | |
|----------------------------|---|---------------|
| | 2019 | 2018 |
| Cost of goods sold | \$ 100,324 | 91,619 |
| Inventory devaluation loss | 18,479 | 6,423 |
| | \$ 118,803 | 98,042 |

(5) Other current financial assets

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|-----------------------------------|---------------------------|------------------------------|---------------------------|
| Time deposits (over three months) | \$ - | 63,500 | 113,000 |
| Pledged deposits | 300 | 300 | 300 |
| Others | 2,203 | 2,180 | 2,331 |
| | \$ 2,503 | 65,980 | 115,631 |

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

(Continued)

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

(6) Property, plant and equipment

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Office and other equipment</u> | <u>Total</u> |
|-------------------------------|------------------|------------------|--|---|----------------|
| Cost: | | | | | |
| Balance as of January 1, 2019 | \$ 34,271 | 73,357 | 150,208 | 16,858 | 274,694 |
| Additions | - | - | 7,341 | 504 | 7,845 |
| Balance as of March 31, 2019 | <u>\$ 34,271</u> | <u>73,357</u> | <u>157,549</u> | <u>17,362</u> | <u>282,539</u> |
| Balance as of January 1, 2018 | \$ 34,271 | 74,339 | 134,980 | 7,654 | 251,244 |
| Additions | - | - | 3,994 | 9,874 | 13,868 |
| Reclassification | - | - | (6) | - | (6) |
| Balance as of March 31, 2018 | <u>\$ 34,271</u> | <u>74,339</u> | <u>138,968</u> | <u>17,528</u> | <u>265,106</u> |
| Accumulated depreciation: | | | | | |
| Balance as of January 1, 2019 | \$ - | 18,667 | 53,050 | 4,330 | 76,047 |
| Depreciation for the period | - | 491 | 5,963 | 1,162 | 7,616 |
| Balance as of March 31, 2019 | <u>\$ -</u> | <u>19,158</u> | <u>59,013</u> | <u>5,492</u> | <u>83,663</u> |
| Balance as of January 1, 2018 | \$ - | 17,501 | 34,254 | 4,040 | 55,795 |
| Depreciation for the period | - | 574 | 5,223 | 1,042 | 6,839 |
| Balance as of March 31, 2018 | <u>\$ -</u> | <u>18,075</u> | <u>39,477</u> | <u>5,082</u> | <u>62,634</u> |
| Book value: | | | | | |
| Balance as of January 1, 2019 | <u>\$ 34,271</u> | <u>54,690</u> | <u>97,158</u> | <u>12,528</u> | <u>198,647</u> |
| Balance as of March 31, 2019 | <u>\$ 34,271</u> | <u>54,199</u> | <u>98,536</u> | <u>11,870</u> | <u>198,876</u> |
| Balance as of January 1, 2018 | <u>\$ 34,271</u> | <u>56,838</u> | <u>100,726</u> | <u>3,614</u> | <u>195,449</u> |
| Balance as of March 31, 2018 | <u>\$ 34,271</u> | <u>56,264</u> | <u>99,491</u> | <u>12,446</u> | <u>202,472</u> |

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

(7) Right-of-use assets

| | |
|--|--|
| | March 31, 2019 |
| Carrying amount of right-of-use assets: | |
| Buildings | <u>\$ 10,712</u> |
| | For the three months ended March 31, 2019 |
| Depreciation expense of right-of-use assets: | |
| Buildings | <u>\$ 2,195</u> |

(Continued)

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

(8) Intangible assets

| | <u>Computer software</u> | <u>Patent and technology license fee</u> | <u>Total</u> |
|-------------------------------|------------------------------|--|---------------|
| Cost: | | | |
| Balance as of January 1, 2019 | \$ 10,473 | 28,095 | 38,568 |
| Additions | <u>2,798</u> | <u>4,838</u> | <u>7,636</u> |
| Balance as of March 31, 2019 | <u>\$ 13,271</u> | <u>32,933</u> | <u>46,204</u> |
| Balance as of January 1, 2018 | \$ 11,583 | 22,721 | 34,304 |
| Additions | 2,654 | - | 2,654 |
| Write-off | <u>-</u> | <u>(208)</u> | <u>(208)</u> |
| Balance as of March 31, 2018 | <u>\$ 14,237</u> | <u>22,513</u> | <u>36,750</u> |
| Accumulated amortization: | | | |
| Balance as of January 1, 2019 | \$ 3,829 | 11,095 | 14,924 |
| Amortization for the period | <u>610</u> | <u>1,218</u> | <u>1,828</u> |
| Balance as of March 31, 2019 | <u>\$ 4,439</u> | <u>12,313</u> | <u>16,752</u> |
| Balance as of January 1, 2018 | \$ 5,625 | 8,319 | 13,944 |
| Amortization for the period | <u>1,175</u> | <u>910</u> | <u>2,085</u> |
| Balance as of March 31, 2018 | <u>\$ 6,800</u> | <u>9,229</u> | <u>16,029</u> |
| Book value: | | | |
| Balance as of January 1, 2019 | <u>\$ 6,644</u> | <u>17,000</u> | <u>23,644</u> |
| Balance as of March 31, 2019 | <u>\$ 8,832</u> | <u>20,620</u> | <u>29,452</u> |
| Balance as of January 1, 2018 | <u>\$ 5,958</u> | <u>14,402</u> | <u>20,360</u> |
| Balance as of March 31, 2018 | <u>\$ 7,437</u> | <u>13,284</u> | <u>20,721</u> |

(9) Short-term borrowings

| | <u>March 31, 2019</u> | <u>December 31, 2018</u> | <u>March 31, 2018</u> |
|--------------------------------|---------------------------|------------------------------|---------------------------|
| Secured bank loans | <u>\$ 63,000</u> | <u>71,000</u> | <u>-</u> |
| Unused short-term credit lines | <u>\$ 147,810</u> | <u>139,720</u> | <u>209,110</u> |
| Range of interest rates | 1.56% | 1.49%~1.56% | - |

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

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

(10) Lease liabilities

| | March 31, 2019 | | |
|----------------------------|--|-----------------|--|
| | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | \$ 8,761 | 93 | 8,668 |
| Between one and five years | 2,068 | 4 | 2,064 |
| | \$ 10,829 | 97 | 10,732 |

The amounts recognized in profit or loss were as follows:

| | For the three months ended March 31, 2019 |
|--|--|
| Interest on lease liabilities | \$ 45 |
| Expenses relating to short-term leases | \$ 65 |

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

| | For the three months ended March 31, 2019 |
|-------------------------------|--|
| Total cash outflow for leases | \$ (2,285) |

As of March 31, 2019, the Company leases buildings for its office space. The leases of office space typically run for a period of 2 years. Leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

(11) Operating lease

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

(12) Employee benefit

Given there was no significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off event in the prior fiscal year, the pension costs in the financial statements are measured and disclosed according to the actuarial results determined on December 31, 2018 and 2017.

For information related to the Company's pension costs for the three months ended March 31, 2019 and 2018, please refer to note 12.

(Continued)

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

(13) Income tax

- A. The amount income tax benefits for the three months ended March 31, 2019 and 2018, were as follows:

| | For the three months ended March 31, | |
|----------------------|---|-------------|
| | 2019 | 2018 |
| Current tax expense | \$ - | - |
| Deferred tax benefit | | |
| Change in tax rate | - | (4,296) |
| Income tax benefits | \$ - | (4,296) |

- B. 3S's income tax returns had been assessed by the tax authorities through 2016.

(14) Capital and other equity interest

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

The deficit compensation for 2018 was approved during the Board of Directors' meeting held on March 14, 2019, which is then to be approved in annual stockholders' meeting. In addition, the deficit compensation for 2017 which was approved during the stockholders' meeting held on June 8, 2018, was consistent with the resolution approved by the Board of Directors.

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

(15) Earnings per share

The Company calculated the EPS as follows:

| | For the three months ended March 31, | |
|---|---|-------------|
| | 2019 | 2018 |
| Basic earnings per share: | | |
| Net loss attributable to 3S's shareholders | \$ (46,084) | (25,566) |
| Weighted average common stocks outstanding (thousand shares) | 80,860 | 80,860 |
| Basic EPS (TWD) | \$ (0.57) | (0.32) |

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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| | For the three months ended | |
|---|-----------------------------------|-----------------|
| | March 31, | |
| | 2019 | 2018 |
| Diluted earnings per share: | | |
| Net loss attributable to 3S's shareholders | \$ (46,084) | (25,566) |
| Weighted average common stocks outstanding (thousand shares) | 80,860 | 80,860 |
| Diluted EPS (TWD) | \$ (0.57) | (0.32) |

Since 3S had net loss for the three months ended March 31, 2019 and 2018, there were no dilutive potential ordinary shares for the period.

(16) Revenue from contracts with customers

| | For the three months ended | |
|------------------------------|-----------------------------------|----------------|
| | March 31, | |
| | 2019 | 2018 |
| Primary geographical markets | | |
| America | \$ 84,746 | 65,399 |
| Taiwan | 21,531 | 36,699 |
| Japan | 31,123 | 27,465 |
| China | 3,014 | 2,789 |
| Hong Kong | 2,087 | 2,383 |
| | \$ 142,501 | 134,735 |
| Major products | | |
| Revenue from IC | \$ 141,166 | 126,519 |
| Technical Service Income | 1,335 | 8,216 |
| | \$ 142,501 | 134,735 |

(17) Compensation of employees, 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.

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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Because 3S incurred a net loss for the three months ended March 31, 2019 and 2018, compensation to employees and directors were not accrued. If there are any subsequent adjustments to the actual compensation amounts after the annual stockholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

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

(18) Non-operating income and expenses

A. Other income

| | For the three months ended March 31, | |
|-----------------|---|-------------|
| | 2019 | 2018 |
| Interest income | \$ 113 | 295 |

B. Other gains and losses

| | For the three months ended March 31, | |
|---|---|----------------|
| | 2019 | 2018 |
| Foreign exchange gains (losses), net | \$ 395 | (2,022) |
| Gains (losses) on financial assets (liabilities) at fair value through profit or loss | (82) | (1) |
| Others | 21 | 34 |
| | \$ 334 | (1,989) |

C. Finance costs

| | For the three months ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| Interest expense-short-term borrowings and other | \$ 272 | 20 |
| Interest expense-lease liabilities | 45 | - |
| | \$ 317 | 20 |

(19) Financial instruments

Except as described in the following paragraph, there were no significant changes in the Company's fair value of financial instruments exposed to credit risk and market risk. For related information about the fair value of financial instruments, please refer to note 6(18) of the consolidated financial statements for the year ended December 31, 2018.

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Solid State System Co., Ltd. and Subsidiaries
Notes to 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 6 months</u> | <u>6-12 months</u> | <u>1-2 years</u> |
|---|----------------------------|-----------------------------------|----------------------------|------------------------|----------------------|
| March 31, 2019 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$ 63,000 | 63,286 | 63,286 | - | - |
| Accounts payable | 24,662 | 24,662 | 24,662 | - | - |
| Lease liabilities (included in current and non-current) | 10,732 | 10,829 | 4,438 | 4,323 | 2,068 |
| Other payables (recorded in other current liabilities) | 21,215 | 21,215 | 21,215 | - | - |
| Derivative financial liabilities | | | | | |
| Current financial liability at fair value through profit or loss | <u>28</u> | <u>28</u> | <u>28</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 119,637</u> | <u>120,020</u> | <u>113,629</u> | <u>4,323</u> | <u>2,068</u> |
| December 31, 2018 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$ 71,000 | 71,377 | 71,377 | - | - |
| Accounts payable | 54,797 | 54,797 | 54,797 | - | - |
| Other payables (recorded in other current liabilities) | <u>30,528</u> | <u>30,528</u> | <u>30,528</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 156,325</u> | <u>156,702</u> | <u>156,702</u> | <u>-</u> | <u>-</u> |
| March 31, 2018 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Accounts payable | \$ 18,635 | 18,635 | 18,635 | - | - |
| Other payables (recorded in other current liabilities) | 22,609 | 22,609 | 22,609 | - | - |
| Derivative financial liabilities | | | | | |
| Current financial liability at fair value through profit or loss | <u>1</u> | <u>1</u> | <u>1</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 41,245</u> | <u>41,245</u> | <u>41,245</u> | <u>-</u> | <u>-</u> |

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

(Continued)

Solid State System Co., Ltd. and Subsidiaries
Notes to 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, 2019 | | | December 31, 2018 | | | March 31, 2018 | | | |
|------------------------------|------------------|---------------|-------|-------------------|---------------|-------|------------------|---------------|-------|--------|
| | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD | |
| <u>Financial assets</u> | | | | | | | | | | |
| <u>Monetary items</u> | | | | | | | | | | |
| USD | \$ | 2,221 | 30.81 | 68,429 | 3,996 | 30.72 | 122,757 | 2,817 | 29.11 | 82,003 |
| <u>Financial liabilities</u> | | | | | | | | | | |
| <u>Monetary items</u> | | | | | | | | | | |
| USD | | 792 | 30.81 | 24,402 | 1,778 | 30.72 | 54,620 | 639 | 29.11 | 18,601 |

(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, receivables (including accounts receivable and receivables from related parties), accounts payable and other payables that are denominated in foreign currency.

A 1% depreciation or appreciation of the TWD against the USD as of March 31, 2019 and 2018, would have decreased or increased the net loss by \$352 and \$507, 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 of 3S were as follows:

| | For the three months ended March 31, 2019 | | | |
|-----|---|--------------|---------------------------------|--------------|
| | 2019 | | 2018 | |
| | Foreign exchange gains (losses) | Average rate | Foreign exchange gains (losses) | Average rate |
| USD | \$ <u>395</u> | <u>-</u> | <u>(2,022)</u> | <u>-</u> |

C. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at FVTPL 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:

(Continued)

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

| | | December 31, 2018 | | | | |
|---|----|-------------------|------------|----------|----------|----------|
| | | Carrying | Fair value | | | |
| | | Amount | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities measured at amortized cost | | | | | | |
| Short-term borrowings | \$ | 71,000 | - | - | - | - |
| Accounts payable | | 54,797 | - | - | - | - |
| Other payables (recorded in other current liabilities) | | 30,528 | - | - | - | - |
| | | <u>\$ 156,325</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | March 31, 2018 | | | | |
| | | Carrying | Fair value | | | |
| | | Amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at amortized cost | | | | | | |
| Cash and cash equivalents | \$ | 36,580 | - | - | - | - |
| Receivables | | 64,015 | - | - | - | - |
| Other current financial assets | | 115,631 | - | - | - | - |
| Refundable deposits | | 7,882 | - | - | - | - |
| Other non-current financial assets | | 4,072 | - | - | - | - |
| | | <u>\$ 228,180</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial liabilities at fair value through profit or loss | | | | | | |
| Held-for-trading financial liabilities – foreign currency forward contracts | \$ | <u>1</u> | <u>-</u> | <u>1</u> | <u>-</u> | <u>1</u> |
| Financial liabilities measured at amortized cost | | | | | | |
| Accounts payable | \$ | 18,635 | - | - | - | - |
| Other payables (recorded in other current liabilities) | | 22,609 | - | - | - | - |
| | | <u>\$ 41,244</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.

(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.

(Continued)

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

(20) Financial risk management

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

(21) Capital management

The Company's objectives, policies and processes for capital management were consistent with the consolidated financial statements for the year ended December 31, 2018. There were no significant changes in quantified factors of capital management from those in the consolidated financial statement for the year ended December 31, 2018. For related information about the capital management, please refer to note 6(20) of the consolidated financial statements for the year ended December 31, 2018.

(22) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

| | <u>Short-term borrowings</u> | <u>Lease liabilities</u> |
|---------------------------------|----------------------------------|------------------------------|
| Balance as of January 1, 2019 | \$ 71,000 | 12,907 |
| Cash flows: | | |
| Proceeds from borrowings | 22,000 | - |
| Repayments of borrowings | (30,000) | - |
| Repayments of lease liabilities | <u>-</u> | <u>(2,175)</u> |
| Balance as of March 31, 2019 | <u>\$ 63,000</u> | <u>10,732</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 |
| Toshiba Memory Corporation (TMC) | A member of the board of 3S |

(Continued)

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

(2) Significant transactions with related parties

A. Sales and service revenue from related parties

| <u>Related Party Category</u> | <u>For the three months ended</u> <u>March 31,</u> | |
|-------------------------------|---|---------------|
| | <u>2019</u> | <u>2018</u> |
| Other related-parties: | | |
| KDIL | \$ 84,746 | 58,488 |
| TMC | <u>31,124</u> | <u>27,464</u> |
| | <u>\$ 115,870</u> | <u>85,952</u> |

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

B. Accounts receivable from related parties

| <u>Related Party Category</u> | <u>March 31,</u> <u>2019</u> | <u>December 31,</u> <u>2018</u> | <u>March 31,</u> <u>2018</u> |
|-------------------------------|---------------------------------|------------------------------------|---------------------------------|
| Other related-parties: | | | |
| KDIL | \$ 48,245 | 84,247 | 33,930 |
| TMC | <u>1,475</u> | <u>18,196</u> | <u>7,146</u> |
| | <u>\$ 49,720</u> | <u>102,443</u> | <u>41,076</u> |

(3) Transactions with key management personnel

Key management personnel compensation comprised:

| | <u>For the three months ended</u> <u>March 31,</u> | |
|------------------------------|---|--------------|
| | <u>2019</u> | <u>2018</u> |
| Short-term employee benefits | \$ 3,524 | 2,490 |
| Post-employment benefits | <u>81</u> | <u>81</u> |
| | <u>\$ 3,605</u> | <u>2,571</u> |

(Continued)

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

8. Pledged Assets

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

| <u>Assets</u> | <u>Purpose of Pledged</u> | <u>March 31, 2019</u> | <u>December 31, 2018</u> | <u>March 31, 2018</u> |
|--|---------------------------|-----------------------|--------------------------|-----------------------|
| Time deposits (recorded in other current financial assets) | Customs duty guarantee | \$ 300 | 300 | 300 |
| Property, plant and equipment | Loan commitments | 88,470 | 88,961 | 90,535 |
| Refundable deposits | Warranty guarantee | 5,500 | 5,500 | 5,500 |
| | | <u>\$ 94,270</u> | <u>94,761</u> | <u>96,335</u> |

9. Significant Commitments and Contingencies

Except the consolidated financial statements notes 6(10) and (11), 3S has licenses to use other companies' technology, which require monthly royalty payments based on sales volume.

10. Significant Disaster Losses: None.**11. Significant Subsequent Events: None.****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, 2019 | | | For the three months ended March 31, 2018 | | |
|----------------------------|--|---|--------|--|---|--------|
| | Classified as Operating Costs | Classified as Operating Expenses | Total | Classified as Operating Costs | Classified as Operating Expenses | Total |
| By item | | | | | | |
| Employee benefits | | | | | | |
| Salary | 410 | 41,649 | 42,059 | 400 | 36,341 | 36,741 |
| Labor and health insurance | 45 | 3,392 | 3,437 | 43 | 3,107 | 3,150 |
| Pension | 22 | 2,049 | 2,071 | 21 | 1,925 | 1,946 |
| Others | 32 | 1,553 | 1,585 | 36 | 1,764 | 1,800 |
| Depreciation | 4,500 | 5,311 | 9,811 | 3,968 | 2,871 | 6,839 |
| Amortization | - | 1,828 | 1,828 | - | 2,085 | 2,085 |

(Continued)

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

13. Segment Information

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