

Solid State System Co., Ltd. and Subsidiaries

Consolidated Financial Statements

With Independent Auditors' Review Report
For the Three Months Ended March 31, 2020 and 2019

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



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KPMG

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Solid State System Co., Ltd. ("3S") and its subsidiaries (together referred to as the "Company") as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the three months ended March 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)

May 7, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2020 and 2019

Solid State System Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
March 31, 2020, December 31 and March 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Assets	March 31, 2020		December 31, 2019		March 31, 2019		Liabilities and Equity	March 31, 2020		December 31, 2019		March 31, 2019	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets:							Current liabilities:						
Cash and cash equivalents (note 6(1))	\$ 66,774	12	59,573	11	73,316	11	Short-term borrowings (notes 6(9) and 8)	\$ 71,964	12	43,000	8	63,000	9
Current contract assets (note 6(15))	2,569	-	4,347	1	-	-	Current financial liabilities at fair value through profit or loss						
Accounts receivable, net (note 6(3))	15,656	3	22,364	4	10,569	2	(note 6(2))	-	-	-	-	28	-
Accounts receivable from related parties, net (notes 6(3) and 7)	52,248	9	54,782	10	49,720	7	Current contract liabilities (note 6(15))	833	-	1,174	-	787	-
Inventories (note 6(4))	170,692	30	155,178	27	236,397	36	Accounts payable	30,680	5	16,983	3	24,662	4
Other current financial assets (notes 6(5) and 8)	1,868	-	1,943	-	2,503	-	Accrued payroll and bonus	9,193	2	13,756	2	9,311	2
Other current assets	7,002	1	7,813	1	9,439	2	Other accrued expenses	36,486	6	29,292	5	21,215	3
	<u>316,809</u>	<u>55</u>	<u>306,000</u>	<u>54</u>	<u>381,944</u>	<u>58</u>	Current lease liabilities (note 6(10))	3,135	1	4,158	1	8,668	1
Non-current assets:							Other current liabilities	<u>11,411</u>	<u>2</u>	<u>10,080</u>	<u>2</u>	<u>9,630</u>	<u>2</u>
Property, plant and equipment (notes 6(6) and 8)	189,165	33	186,218	33	198,876	30		<u>163,702</u>	<u>28</u>	<u>118,443</u>	<u>21</u>	<u>137,301</u>	<u>21</u>
Right-of-use assets (note 6(7))	3,114	1	4,126	1	10,712	2	Non-current liabilities:						
Intangible assets (note 6(8))	27,666	5	30,114	5	29,452	4	Deferred tax liabilities	249	-	249	-	205	-
Deferred tax assets	29,860	5	29,860	5	29,860	5	Guarantee deposits received	1,362	-	1,050	-	-	-
Refundable deposits (note 8)	7,974	1	7,979	1	7,959	1	Other non-current liabilities (note 6(10))	-	-	-	-	3,179	-
Net defined benefit asset, non-current	1,150	-	1,150	-	884	-		<u>1,611</u>	<u>-</u>	<u>1,299</u>	<u>-</u>	<u>3,384</u>	<u>-</u>
Other non-current financial assets	2,565	-	2,945	1	3,536	-	Total liabilities	<u>165,313</u>	<u>28</u>	<u>119,742</u>	<u>21</u>	<u>140,685</u>	<u>21</u>
	<u>261,494</u>	<u>45</u>	<u>262,392</u>	<u>46</u>	<u>281,279</u>	<u>42</u>	Equity (note 6(13)):						
Total assets	\$ <u>578,303</u>	<u>100</u>	<u>568,392</u>	<u>100</u>	<u>663,223</u>	<u>100</u>	Common stock	808,596	140	808,596	142	808,596	122
							Accumulated deficits	(395,606)	(68)	(359,946)	(63)	(286,058)	(43)
							Total equity	<u>412,990</u>	<u>72</u>	<u>448,650</u>	<u>79</u>	<u>522,538</u>	<u>79</u>
							Total liabilities and equity	\$ <u>578,303</u>	<u>100</u>	<u>568,392</u>	<u>100</u>	<u>663,223</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2020 and 2019

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

	For the three months ended March 31,			
	2020		2019	
	Amount	%	Amount	%
Operating revenues (notes 6(15) and 7)	\$ 116,727	100	142,501	100
Operating costs (notes 6(4), (10) and 12)	<u>83,535</u>	<u>72</u>	<u>118,803</u>	<u>83</u>
Gross profit	<u>33,192</u>	<u>28</u>	<u>23,698</u>	<u>17</u>
Operating expenses (notes 6(10), 7 and 12) :				
Selling	19,845	17	17,971	13
General and administrative	10,547	9	9,830	7
Research and development	<u>40,068</u>	<u>34</u>	<u>42,111</u>	<u>30</u>
Total operating expenses	<u>70,460</u>	<u>60</u>	<u>69,912</u>	<u>50</u>
Net operating loss	<u>(37,268)</u>	<u>(32)</u>	<u>(46,214)</u>	<u>(33)</u>
Non-operating income and expenses (note 6(17)) :				
Other income	972	1	113	-
Other gains and losses	892	-	334	-
Finance costs (note 6(10))	<u>(256)</u>	<u>-</u>	<u>(317)</u>	<u>-</u>
Total non-operating income and expenses	<u>1,608</u>	<u>1</u>	<u>130</u>	<u>-</u>
Loss before tax	(35,660)	(31)	(46,084)	(33)
Income tax expenses (note 6(12))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss for the period	<u>(35,660)</u>	<u>(31)</u>	<u>(46,084)</u>	<u>(33)</u>
Other comprehensive income for the period (after tax)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>\$ (35,660)</u>	<u>(31)</u>	<u>(46,084)</u>	<u>(33)</u>
Earnings per share (New Taiwan Dollars) (note 6(14))				
Basic earnings per share	<u>\$ (0.44)</u>		<u>(0.57)</u>	
Diluted earnings per share	<u>\$ (0.44)</u>		<u>(0.57)</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, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	<u>Common stock</u>	<u>Accumulated deficits</u>	<u>Total equity</u>
Balance as of January 1, 2019	\$ 808,596	(239,974)	568,622
Net loss for the period	-	(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>
Balance as of January 1, 2020	\$ 808,596	(359,946)	448,650
Net loss for the period	-	(35,660)	(35,660)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(35,660)	(35,660)
Balance as of March 31, 2020	<u>\$ 808,596</u>	<u>(395,606)</u>	<u>412,990</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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Loss before tax	\$ (35,660)	(46,084)
Adjustments:		
Adjustments to reconcile (profit) loss:		
Depreciation	9,769	9,811
Amortization	2,277	1,828
Expected credit loss (gain)	944	(302)
Interest expense	256	317
Interest income	(87)	(113)
Provision for inventory devaluation loss	13,180	18,479
Others	326	-
Total adjustments to reconcile (profit) loss	26,665	30,020
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	5,764	16,667
Accounts receivable from related parties	2,534	52,723
Inventories	(28,694)	(8,464)
Other operating assets	3,043	3,090
Total changes in operating assets	(17,353)	64,061
Changes in operating liabilities:		
Financial liabilities held for trading	-	28
Accounts payable	13,697	(30,135)
Other operating liabilities	(5,823)	(19,377)
Total changes in operating liabilities	7,874	(49,484)
Total changes in operating assets and liabilities	(9,479)	14,577
Total adjustments	17,186	44,597
Cash flows used in operations	(18,474)	(1,487)
Interest received	88	128
Interest paid	(246)	(311)
Net cash flows used in operating activities	(18,632)	(1,670)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(1,183)	(4,502)
Decrease (increase) in refundable deposits	5	(7)
Acquisition of intangible assets	(75)	(7,729)
Decrease in other current financial assets	-	63,500
Net cash flows (used in) from investing activities	(1,253)	51,262
Cash flows from financing activities:		
Proceeds from borrowings	46,964	22,000
Repayments of borrowings	(18,000)	(30,000)
Increase in guarantee deposits received	312	-
Payment of lease liabilities	(2,190)	(2,175)
Net cash flows from (used in) financing activities	27,086	(10,175)
Net increase in cash and cash equivalents for the period	7,201	39,417
Cash and cash equivalents at beginning of period	59,573	33,899
Cash and cash equivalents at end of period	\$ 66,774	73,316

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 the Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

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

1. Company History

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

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

2. Approval Date and Procedures of the Financial Statements

The consolidated financial statements were reported to the Board of Directors and issue on May 7, 2020.

3. New Standards and Interpretations Adopted:

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date per International Accounting Standards Board</u>
Amendments to IFRS 3 <i>Definition of a Business</i>	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 <i>Interest Rate Benchmark Reform</i>	January 1, 2020
Amendments to IAS 1 and IAS 8 <i>Definition of Material</i>	January 1, 2020

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

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i>	Effective date to be determined by IASB

(Continued)

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

New Standards, Interpretations and Amendments	Effective date per IASB
<i>IFRS 17 Insurance Contracts</i>	January 1, 2021
<i>Amendments to IAS 1 Classification of Liabilities as Current or Non-current</i>	January 1, 2022

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

4. Summary of Significant Accounting Policies

(1) Statement of compliance

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

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

(2) Basis of consolidation

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

A. List of subsidiaries in the consolidated financial statements

Name of investor	Subsidiary	Main activities	Percentage of ownership (%)		
			March 31, 2020	December 31, 2019	March 31, 2019
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.

(Continued)

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

(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, 2019.

6. Description of Significant Accounts

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

(1) Cash and cash equivalents

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand and petty cash	\$ 327	275	209
Checking and savings accounts	25,747	12,798	20,407
Time deposits	40,700	46,500	52,700
	\$ 66,774	59,573	73,316

(Continued)

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

Please refer to note 6(18) for the disclosure of currency risk of the financial assets and liabilities of the Company.

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

	March 31, 2020	December 31, 2019	March 31, 2019
Held-for-trading financial liabilities:			
Foreign currency forward contracts	\$ <u> -</u>	<u> -</u>	<u> 28</u>

The Company held derivative financial instruments to manage its foreign currency exchange risk resulting from operations. The related transactions had been settled as of March 31, 2020 and December 31, 2019. The Company held the following derivative instruments, without the application of hedge accounting, were classified as held-for-trading financial liabilities as of March 31, 2019:

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

Please refer to note 6(18) for the disclosure of currency risk of derivative financial instruments.

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

	March 31, 2020	December 31, 2019	March 31, 2019	January 1, 2019
Accounts receivable (including receivables from related parties)	\$ 69,049	77,347	60,347	129,737
Less: loss allowance	<u>(1,145)</u>	<u>(201)</u>	<u>(58)</u>	<u>(360)</u>
Accounts receivable, net	<u>\$ 67,904</u>	<u>77,146</u>	<u>60,289</u>	<u>129,377</u>
Accounts receivable, net	<u>\$ 15,656</u>	<u>22,364</u>	<u>10,569</u>	<u>26,934</u>
Accounts receivable from related parties, net	<u>\$ 52,248</u>	<u>54,782</u>	<u>49,720</u>	<u>102,443</u>

(Continued)

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

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:

	March 31, 2020		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 65,880	0.080 %	53
Past due 90~180 days	18	-	-
Past due more than 180 days	3,151	34.656 %	1,092
Total	\$ 69,049		1,145
	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 72,122	0.035 %	25
Past due 1~89 days	221	2.715 %	6
Past due 90~180 days	4,916	2.889 %	142
Past due more than 180 days	88	31.818 %	28
Total	\$ 77,347		201
	March 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 57,665	0.064 %	37
Past due 1~89 days	2,652	0.415 %	11
Past due more than 180 days	30	33.333 %	10
Total	\$ 60,347		58

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

	For the three months ended	
	March 31,	
	2020	2019
Beginning balance	\$ 201	360
Impairment loss recognized (reversed)	944	(302)
Ending balance	\$ 1,145	58

(Continued)

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

(4) Inventories

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Raw materials	\$ 5,107	3,238	34,853
Work in process	105,057	97,874	125,481
Finished goods	58,502	50,266	71,013
Merchandise inventory	<u>2,026</u>	<u>3,800</u>	<u>5,050</u>
	<u><u>\$ 170,692</u></u>	<u><u>155,178</u></u>	<u><u>236,397</u></u>

The details of operating costs were as follows:

	For the three months ended March 31,	
	<u>2020</u>	<u>2019</u>
Cost of goods sold	\$ 65,922	99,646
Technical service cost	2,498	678
Inventory devaluation loss	13,180	18,479
Others	<u>1,935</u>	<u>-</u>
	<u><u>\$ 83,535</u></u>	<u><u>118,803</u></u>

(5) Other current financial assets

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Pledged deposits	\$ 300	300	300
Others	<u>1,568</u>	<u>1,643</u>	<u>2,203</u>
	<u><u>\$ 1,868</u></u>	<u><u>1,943</u></u>	<u><u>2,503</u></u>

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

(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, 2020	\$ 34,271	73,851	156,288	17,592	282,002
Additions	-	-	160	10,457	10,617
Reclassification	-	-	(80)	-	(80)
Balance as of March 31, 2020	<u><u>\$ 34,271</u></u>	<u><u>73,851</u></u>	<u><u>156,368</u></u>	<u><u>28,049</u></u>	<u><u>292,539</u></u>
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><u>\$ 34,271</u></u>	<u><u>73,357</u></u>	<u><u>157,549</u></u>	<u><u>17,362</u></u>	<u><u>282,539</u></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>
Accumulated depreciation:					
Balance as of January 1, 2020	\$ -	20,703	66,632	8,449	95,784
Depreciation for the period	<u>-</u>	<u>533</u>	<u>5,722</u>	<u>1,335</u>	<u>7,590</u>
Balance as of March 31, 2020	<u>\$ -</u>	<u>21,236</u>	<u>72,354</u>	<u>9,784</u>	<u>103,374</u>
Balance as of January 1, 2019	\$ -	18,667	53,050	4,330	76,047
Depreciation for the period	<u>-</u>	<u>491</u>	<u>5,963</u>	<u>1,162</u>	<u>7,616</u>
Balance as of March 31, 2019	<u>\$ -</u>	<u>19,158</u>	<u>59,013</u>	<u>5,492</u>	<u>83,663</u>
Book value:					
Balance as of January 1, 2020	<u>\$ 34,271</u>	<u>53,148</u>	<u>89,656</u>	<u>9,143</u>	<u>186,218</u>
Balance as of March 31, 2020	<u>\$ 34,271</u>	<u>52,615</u>	<u>84,014</u>	<u>18,265</u>	<u>189,165</u>
Balance as of January 1, 2019	<u>\$ 34,271</u>	<u>54,690</u>	<u>97,158</u>	<u>12,528</u>	<u>198,647</u>
Balance as of March 31, 2019	<u>\$ 34,271</u>	<u>54,199</u>	<u>98,536</u>	<u>11,870</u>	<u>198,876</u>

Please refer to note 8 for the details regarding facilities guarantee as of March 31, 2020, December 31 and March 31, 2019.

(7) Right-of-use assets

	<u>Buildings</u>
Cost of right-of-use assets:	
Balance as of January 1, 2020	\$ 12,907
Additions	<u>1,167</u>
Balance as of March 31, 2020	<u>\$ 14,074</u>
Balance as of January 1, 2019	\$ -
Effects of retrospective application	<u>12,907</u>
Balance as of March 31, 2019	<u>\$ 12,907</u>
Accumulated depreciation:	
Balance as of January 1, 2020	\$ 8,781
Depreciation for the period	<u>2,179</u>
Balance as of March 31, 2020	<u>\$ 10,960</u>
Balance as of January 1, 2019	\$ -
Depreciation for the period	<u>2,195</u>
Balance as of March 31, 2019	<u>\$ 2,195</u>

(Continued)

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

	Buildings
Book value:	
Balance as of January 1, 2020	\$ <u>4,126</u>
Balance as of March 31, 2020	\$ <u>3,114</u>
Balance as of January 1, 2019	\$ <u>-</u>
Balance as of March 31, 2019	\$ <u>10,712</u>

(8) Intangible assets

	Computer software	Patent and technology license fee	Total
Cost:			
Balance as of January 1, 2020	\$ 14,350	34,427	48,777
Additions	75	-	75
Reclassification	-	(246)	(246)
Balance as of March 31, 2020	\$ <u>14,425</u>	<u>34,181</u>	<u>48,606</u>
Balance as of January 1, 2019	\$ 10,473	28,095	38,568
Additions	2,798	4,838	7,636
Balance as of March 31, 2019	\$ <u>13,271</u>	<u>32,933</u>	<u>46,204</u>
Accumulated amortization:			
Balance as of January 1, 2020	\$ 6,306	12,357	18,663
Amortization for the period	880	1,397	2,277
Balance as of March 31, 2020	\$ <u>7,186</u>	<u>13,754</u>	<u>20,940</u>
Balance as of January 1, 2019	\$ 3,829	11,095	14,924
Amortization for the period	610	1,218	1,828
Balance as of March 31, 2019	\$ <u>4,439</u>	<u>12,313</u>	<u>16,752</u>
Book value:			
Balance as of January 1, 2020	\$ <u>8,044</u>	<u>22,070</u>	<u>30,114</u>
Balance as of March 31, 2020	\$ <u>7,239</u>	<u>20,427</u>	<u>27,666</u>
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>

(Continued)

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

(9) Short-term borrowings

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Secured bank loans	\$ <u>71,964</u>	<u>43,000</u>	<u>63,000</u>
Unused credit lines	\$ <u>138,266</u>	<u>167,080</u>	<u>147,810</u>
Range of interest rates	<u>1.56%</u>	<u>1.56%</u>	<u>1.56%</u>

Please refer to note 8 for the details regarding facilities guarantee as of March 31, 2020, December 31 and March 31, 2019.

(10) Lease liabilities

The carrying amount of lease liabilities was as follows:

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Current	\$ <u>3,135</u>	<u>4,158</u>	<u>8,668</u>
Non-current	\$ <u>-</u>	<u>-</u>	<u>2,064</u>

For the maturity analysis, please refer to note 6(18) of the financial instruments.

The amounts recognized in profit or loss were as follows:

	<u>For the three months ended</u> <u>March 31,</u>	
	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ <u>12</u>	<u>45</u>
Expenses relating to short-term leases	\$ <u>53</u>	<u>65</u>

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

	<u>For the three months ended</u> <u>March 31,</u>	
	<u>2020</u>	<u>2019</u>
Total cash outflow for leases	\$ <u>2,255</u>	<u>2,285</u>

The Company leases buildings for its office space. The leases of office space typically run for a period of 1 to 2 years.

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

(Continued)

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

(11) 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, 2019 and 2018.

For the information related to the Company's pension costs for the three months ended March 31, 2020 and 2019, please refer to note 12.

(12) Income tax

A. The amount income tax expenses was as follows:

	For the three months ended	
	March 31,	
	2020	2019
Current tax expense	\$ -	-

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

(13) Capital and other equity

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

The deficit compensation for 2019 was approved during the Board of Directors' meeting held on March 12, 2020, which is then to be approved in annual stockholders' meeting. In addition, the deficit compensation for 2018 which was approved during the stockholders' meeting held on June 24, 2019, was consistent with the resolution approved by the Board of Directors.

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

(14) Earnings per share

The Company calculated the EPS as follows:

	For the three months ended	
	March 31,	
	2020	2019
Basic earnings per share:		
Net loss attributable to 3S's stockholders	\$ (35,660)	(46,084)
Weighted average common stocks outstanding (thousand shares)	80,860	80,860
Basic EPS (TWD)	\$ (0.44)	(0.57)

(Continued)

Solid State System Co., Ltd. and Subsidiaries
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	For the three months ended March 31,	
	2020	2019
Diluted earnings per share:		
Net loss attributable to 3S's stockholders	\$ (35,660)	(46,084)
Weighted average common stocks outstanding (thousand shares)	80,860	80,860
Diluted EPS (TWD)	\$ (0.44)	(0.57)

Since 3S incurred a net loss for the three months ended March 31, 2020 and 2019, there were no dilutive potential ordinary shares for the period.

(15) Revenue from contracts with customers

A. Disaggregation of revenue

	For the three months ended March 31,	
	2020	2019
Primary geographical markets		
America	\$ 64,078	91,025
Japan	21,633	31,123
Taiwan	13,160	15,252
China	11,281	3,014
Hong Kong	6,575	2,087
	\$ 116,727	142,501
Major products		
Revenue from IC	\$ 93,550	141,166
Technical service income	23,177	1,335
	\$ 116,727	142,501

B. Contract balances

	March 31, 2020	December 31, 2019	March 31, 2019	January 1, 2019
Contract asset:				
Contract asset— service income	\$ 2,569	4,347	-	-
Contract liabilities:				
Contract liabilities— advance receipts	\$ 833	1,174	787	787

(Continued)

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

For details on accounts receivable and loss allowance, please refer to note 6(3).

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 three months ended March 31, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$58 and \$0, respectively.

(16) Compensation of employees and directors

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

Because 3S incurred a net loss for the three months ended March 31, 2020 and 2019, compensation to employees and directors were not accrued. If there are any subsequent adjustments to the actual compensation amounts after the annual stockholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

For related information about the 3S's compensation to employees and directors will be available at the Market Observation Post System website.

(17) Non-operating income and expenses

A. Other income

	For the three months ended March 31,	
	2020	2019
Interest income	\$ 87	113
Rental income	885	-
	\$ 972	113

B. Other gains and losses

	For the three months ended March 31,	
	2020	2019
Foreign exchange (losses) gains, net	\$ 699	395
Losses on financial assets (liabilities) at fair value through profit or loss	-	(82)
Others	193	21
	\$ 892	334

(Continued)

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

C. Finance costs

	For the three months ended March 31,	
	2020	2019
Interest expense — short-term borrowings and other	\$ 244	272
Interest expense — lease liabilities	12	45
	\$ 256	317

(18) Financial instruments

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

A. Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years
March 31, 2020					
Non-derivative financial liabilities					
Secured fixed-rate bank loans	\$ 71,964	72,312	72,312	-	-
Accounts Payable	30,680	30,680	30,680	-	-
Other accrued expenses	36,486	36,486	36,486	-	-
Current lease liabilities	3,135	3,146	2,656	490	-
Guarantee deposits received	1,362	1,362	-	-	1,362
	\$ 143,627	143,986	142,134	490	1,362
December 31, 2019					
Non-derivative financial liabilities					
Secured fixed-rate bank loans	\$ 43,000	43,305	43,305	-	-
Accounts payable	16,983	16,983	16,983	-	-
Other accrued expenses	29,292	29,292	29,292	-	-
Current lease liabilities	4,158	4,172	3,691	481	-
Guarantee deposits received	1,050	1,050	-	-	1,050
	\$ 94,483	94,802	93,271	481	1,050

(Continued)

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>
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 accrued expenses	21,215	21,215	21,215	-	-
Derivative financial liabilities					
Current financial liability at fair value through profit or loss	28	28	28	-	-
	<u>\$ 119,637</u>	<u>120,020</u>	<u>113,629</u>	<u>4,323</u>	<u>2,068</u>

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

B. Currency risk

(a) Exposure to currency risk

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

	<u>March 31, 2020</u>			<u>December 31, 2019</u>			<u>March 31, 2019</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 2,893	30.23	87,455	2,797	30.08	84,134	2,221	30.81	68,429
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	1,410	30.23	42,624	705	30.08	21,206	792	30.81	24,402

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, receivable (including receivables from related parties), accounts payable and other payables accounts that are denominated in foreign currency.

A 1% depreciation or appreciation of the TWD against the USD as of March 31, 2020 and 2019, would have decreased or increased the net loss by \$359 and \$352, 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.

(Continued)

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

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

	For the three months ended March 31,			
	2020		2019	
	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate
USD	\$ 699	-	395	-

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:

	Carrying Amount	March 31, 2020			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 66,774	-	-	-	-
Accounts receivable (including receivables from related parties)	67,904	-	-	-	-
Other current financial assets	1,868	-	-	-	-
Refundable deposits	7,974	-	-	-	-
Other non-current financial assets	2,565	-	-	-	-
	\$ 147,085	-	-	-	-
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 71,964	-	-	-	-
Accounts payable	30,680	-	-	-	-
Other accrued expenses	36,486	-	-	-	-
Current lease liabilities	3,135	-	-	-	-
Guarantee deposits received	1,362	-	-	-	-
	\$ 143,627	-	-	-	-

(Continued)

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

		December 31, 2019				
		Carrying Amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	59,573	-	-	-	-
Accounts receivable (including receivables from related parties)		77,146	-	-	-	-
Other current financial assets		1,943	-	-	-	-
Refundable deposits		7,979	-	-	-	-
Other non-current financial assets		2,945	-	-	-	-
		<u>\$ 149,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost						
Short-term borrowings	\$	43,000	-	-	-	-
Accounts payable		16,983	-	-	-	-
Other accrued expenses		29,292	-	-	-	-
Current lease liabilities		4,158	-	-	-	-
Refundable deposits		1,050	-	-	-	-
		<u>\$ 94,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		March 31, 2019				
		Carrying Amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	73,316	-	-	-	-
Accounts receivable (including receivables from related parties)		60,289	-	-	-	-
Other current financial assets		2,503	-	-	-	-
Refundable deposits		7,959	-	-	-	-
Other non-current financial assets		3,536	-	-	-	-
		<u>\$ 147,603</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	\$	28	-	28	-	28

(Continued)

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

	March 31, 2019				
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 63,000	-	-	-	-
Accounts payable	24,662	-	-	-	-
Other payables (recorded in other current liabilities)	21,215	-	-	-	-
Lease liabilities (included in current and non-current)	<u>10,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 119,609</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 refundable deposits do not have explicit expiration date, the fair value of it is evaluated based on carry amount of the refundable deposits.

(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.

(19) 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(20) of the consolidated financial statement for the year ended December 31, 2019.

(20) Capital management

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

(Continued)

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

(21) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities was as follows:

	<u>Short-term borrowings</u>	<u>Current 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	46,964	-	-	46,964
Repayments of borrowings	(18,000)	-	-	(18,000)
Payment of lease liabilities	-	(2,190)	-	(2,190)
Interest paid	-	(12)	-	(12)
Increase in guarantee deposits received	-	-	312	312
Non-cash flows:				
Increase in lease liabilities	-	1,167	-	1,167
Interest expense	-	12	-	12
Balance as of March 31, 2020	<u>\$ 71,964</u>	<u>3,135</u>	<u>1,362</u>	<u>76,461</u>
		<u>Short-term borrowings</u>	<u>Lease liabilities</u>	<u>Total liabilities from financing activities</u>
Balance as of January 1, 2019		\$ 71,000	12,907	83,907
Cash flows:				
Proceeds from borrowings		22,000	-	22,000
Repayments of borrowings		(30,000)	-	(30,000)
Repayments of lease liabilities		-	(2,175)	(2,175)
Interest paid		-	(45)	(45)
Non-cash flows:				
Interest expense		-	45	45
Balance as of March 31, 2019		<u>\$ 63,000</u>	<u>10,732</u>	<u>73,732</u>

(Continued)

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

7. Related-party Transactions

(1) Names and relationship with related parties

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

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

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

(2) Significant transactions with related parties

A. Sales and service revenue from related parties

<u>Related Party Category</u>	<u>For the three months ended</u> <u>March 31,</u>	
	<u>2020</u>	<u>2019</u>
Other related-parties:		
KDIL	\$ 53,382	84,746
KIC	<u>21,633</u>	<u>31,124</u>
	<u>\$ 75,015</u>	<u>115,870</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>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Other related-parties:			
KDIL	\$ 45,722	48,024	48,245
KIC	<u>6,526</u>	<u>6,758</u>	<u>1,475</u>
	<u>\$ 52,248</u>	<u>54,782</u>	<u>49,720</u>

(Continued)

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

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the three months ended	
	March 31,	
	2020	2019
Short-term employee benefits	\$ 2,866	3,524
Post-employment benefits	81	81
	<u>\$ 2,947</u>	<u>3,605</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>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Time deposits (recorded in other current financial assets)	Customs duty guarantee	\$ 300	300	300
Property, plant and equipment	Loan commitments	86,886	87,419	88,470
Refundable deposits	Warranty guarantee	<u>5,500</u>	<u>5,500</u>	<u>5,500</u>
		<u>\$ 92,686</u>	<u>93,219</u>	<u>94,270</u>

9. Significant Commitments and Contingencies

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

10. Significant Disaster Losses: None.**11. Significant Subsequent Events: None.****12. Others**

(1) The Company incurred a net loss amounting to \$395,606 as of March 31, 2020. The Company intends to adopt the following countermeasures to maintain the Company's operation:

A. Marketing plans

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

(Continued)

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

B. Financial structure improvement 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.
 - (e) Plan to capital reduction plan to improve financial structure.
- (2) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	447	40,620	41,067	410	41,649	42,059
Labor and health insurance	48	3,311	3,359	45	3,392	3,437
Pension	23	2,056	2,079	22	2,049	2,071
Others	32	1,518	1,550	32	1,553	1,585
Depreciation	4,721	5,048	9,769	4,500	5,311	9,811
Amortization	-	2,277	2,277	-	1,828	1,828

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.