

Solid State System Co., Ltd. and Subsidiaries

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 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.



安侯建業聯合會計師事務所

KPMG

新竹市30078科學工業園區展業一路11號
No. 11, Prosperity Road I, Hsinchu Science Park,
Hsinchu City 30078, Taiwan (R.O.C.)

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

Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Solid State System Co., Ltd. (“3S”) and its subsidiaries (together referred to as the “Company”) as of June 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three and six months ended June 30, 2020 and 2019, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 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 June 30, 2020 and 2019, and of its consolidated financial performance for the three and six months ended June 30, 2020 and 2019, as well as its consolidated cash flows for the six months ended June 30, 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)

August 6, 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 June 30, 2020 and 2019

Solid State System Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

June 30, 2020, December 31 and June 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets	June 30, 2020		December 31, 2019		June 30, 2019		June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Current assets:												
Cash and cash equivalents (note 6(1))	\$ 95,272	17	59,573	11	69,405	11	-	-	43,000	8	93,115	14
Current contract assets (note 6(14))	-	-	4,347	1	-	-	854	-	1,174	-	797	-
Accounts receivable, net (note 6(2))	25,661	5	22,364	4	20,836	3	42,019	8	16,983	3	15,330	2
Accounts receivable from related parties, net (notes 6(2) and 7)	41,350	7	54,782	10	70,214	11	9,554	2	13,756	2	7,152	1
Inventories (note 6(3))	190,132	34	155,178	27	214,227	32	35,135	6	29,292	5	34,934	5
Other current financial assets (notes 6(4) and 8)	1,801	-	1,943	-	2,220	-	4,258	1	4,158	1	8,069	1
Other current assets	9,483	2	7,813	1	11,076	2	9,529	2	10,080	2	10,354	3
	<u>363,699</u>	<u>65</u>	<u>306,000</u>	<u>54</u>	<u>387,978</u>	<u>59</u>	<u>101,349</u>	<u>19</u>	<u>118,443</u>	<u>21</u>	<u>169,751</u>	<u>26</u>
Non-current assets:												
Property, plant and equipment (notes 6(5) and 8)	95,551	17	186,218	33	194,908	29	249	-	249	-	205	-
Right-of-use assets (note 6(6))	26,681	5	4,126	1	8,517	1	12,428	2	-	-	481	-
Intangible assets (note 6(7))	28,933	6	30,114	5	27,579	4	621	-	1,050	-	-	-
Deferred tax assets	29,860	6	29,860	5	29,860	5	-	-	-	-	1,115	-
Refundable deposits (note 8)	8,325	1	7,979	1	7,955	1	13,298	2	1,299	-	1,801	-
Net defined benefit asset, non-current	1,150	-	1,150	-	884	-	114,647	21	119,742	21	171,552	26
Other non-current financial assets	2,220	-	2,945	1	3,252	1	-	-	-	-	-	-
	<u>192,720</u>	<u>35</u>	<u>262,392</u>	<u>46</u>	<u>272,955</u>	<u>41</u>	<u>808,596</u>	<u>145</u>	<u>808,596</u>	<u>142</u>	<u>808,596</u>	<u>122</u>
							<u>(366,824)</u>	<u>(66)</u>	<u>(359,946)</u>	<u>(63)</u>	<u>(319,215)</u>	<u>(48)</u>
							<u>441,772</u>	<u>79</u>	<u>448,650</u>	<u>79</u>	<u>489,381</u>	<u>74</u>
Total assets	<u>\$ 556,419</u>	<u>100</u>	<u>568,392</u>	<u>100</u>	<u>660,933</u>	<u>100</u>	<u>\$ 556,419</u>	<u>100</u>	<u>568,392</u>	<u>100</u>	<u>660,933</u>	<u>100</u>
Liabilities and Equity												
Current liabilities:												
Short-term borrowings (notes 6(8) and 8)												
Current contract liabilities (note 6(14))												
Accounts payable												
Accrued payroll and bonus												
Other accrued expenses												
Current lease liabilities (note 6(9))												
Other current liabilities												
Non-current liabilities:												
Deferred tax liabilities												
Non-current lease liabilities (note 6(9))												
Guarantee deposits received												
Other non-current liabilities												
Total liabilities												
Equity (note 6(12)):												
Common stock												
Accumulated deficits												
Total equity												
Total liabilities and equity												

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

Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2020 and 2019

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

	<u>For the three months ended June 30,</u>				<u>For the six months ended June 30,</u>			
	<u>2020</u>		<u>2019</u>		<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating revenues (notes 6(14) and 7)	\$ 154,061	100	156,518	100	270,788	100	299,019	100
Operating costs (notes 6(3), (9) and 12)	<u>118,375</u>	<u>77</u>	<u>113,633</u>	<u>73</u>	<u>201,910</u>	<u>75</u>	<u>232,436</u>	<u>78</u>
Gross profit	<u>35,686</u>	<u>23</u>	<u>42,885</u>	<u>27</u>	<u>68,878</u>	<u>25</u>	<u>66,583</u>	<u>22</u>
Operating expenses (notes 6(9), 7 and 12):								
Selling	18,772	12	19,147	12	38,617	14	37,118	13
General and administrative	10,205	7	9,184	6	20,752	8	19,014	6
Research and development	<u>40,714</u>	<u>26</u>	<u>48,422</u>	<u>31</u>	<u>80,782</u>	<u>30</u>	<u>90,533</u>	<u>30</u>
Total operating expenses	<u>69,691</u>	<u>45</u>	<u>76,753</u>	<u>49</u>	<u>140,151</u>	<u>52</u>	<u>146,665</u>	<u>49</u>
Net operating loss	<u>(34,005)</u>	<u>(22)</u>	<u>(33,868)</u>	<u>(22)</u>	<u>(71,273)</u>	<u>(27)</u>	<u>(80,082)</u>	<u>(27)</u>
Non-operating income and expenses (note 6(16)):								
Interest income	76	-	124	-	163	-	237	-
Total other income	612	-	-	-	1,497	1	-	-
Other gains and losses	65,347	42	920	1	66,239	24	1,254	-
Finance costs (note 6(9))	<u>(270)</u>	<u>-</u>	<u>(333)</u>	<u>-</u>	<u>(526)</u>	<u>-</u>	<u>(650)</u>	<u>-</u>
Total non-operating income and expenses	<u>65,765</u>	<u>42</u>	<u>711</u>	<u>1</u>	<u>67,373</u>	<u>25</u>	<u>841</u>	<u>-</u>
Income (loss) before tax	31,760	20	(33,157)	(21)	(3,900)	(2)	(79,241)	(27)
Income tax expenses (note 6(11))	<u>2,978</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>2,978</u>	<u>1</u>	<u>-</u>	<u>-</u>
Net income (loss) for the period	<u>28,782</u>	<u>18</u>	<u>(33,157)</u>	<u>(21)</u>	<u>(6,878)</u>	<u>(3)</u>	<u>(79,241)</u>	<u>(27)</u>
Other comprehensive income for the period (after tax)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>\$ 28,782</u>	<u>18</u>	<u>(33,157)</u>	<u>(21)</u>	<u>(6,878)</u>	<u>(3)</u>	<u>(79,241)</u>	<u>(27)</u>
Earnings per share (New Taiwan Dollars) (note 6(13))								
Basic earnings per share	<u>\$ 0.36</u>		<u>(0.41)</u>		<u>(0.09)</u>		<u>(0.98)</u>	
Diluted earnings per share	<u>\$ 0.36</u>		<u>(0.41)</u>		<u>(0.09)</u>		<u>(0.98)</u>	

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

Solid State System Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the six months ended June 30, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	Common stock	Accumulated deficits	Total equity
Balance as of January 1, 2019	\$ 808,596	(239,974)	568,622
Net loss for the period	-	(79,241)	(79,241)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(79,241)	(79,241)
Balance as of June 30, 2019	\$ 808,596	(319,215)	489,381
Balance as of January 1, 2020	\$ 808,596	(359,946)	448,650
Net loss for the period	-	(6,878)	(6,878)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(6,878)	(6,878)
Balance as of June 30, 2020	\$ 808,596	(366,824)	441,772

See accompanying notes to consolidated financial statements.

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

Solid State System Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30,	
	2020	2019
Cash flows from operating activities:		
Loss before tax	\$ (3,900)	(79,241)
Adjustments:		
Adjustments to reconcile (profit) loss:		
Depreciation	19,806	19,779
Amortization	5,032	3,892
Expected credit loss (gain)	326	(14)
Interest expense	526	650
Interest income	(163)	(237)
Gain on disposal of property, plant and equipment	(72,451)	-
Loss on sale-leasebacks	10,401	-
Provision for inventory devaluation loss	27,514	26,048
Others	337	888
Total adjustments to reconcile (profit) loss	(8,672)	51,006
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	(3,623)	6,112
Accounts receivable from related parties	13,432	32,229
Inventories	(62,468)	6,137
Other operating assets	4,334	2,020
Total changes in operating assets	(48,325)	46,543
Changes in operating liabilities:		
Accounts payable	25,036	(39,467)
Other operating liabilities	1,628	(5,980)
Total changes in operating liabilities	26,664	(45,447)
Total changes in operating assets and liabilities	(21,661)	1,096
Total adjustments	(30,333)	52,102
Cash flows used in operations	(34,233)	(27,139)
Interest received	168	252
Interest paid	(544)	(639)
Income taxes refunded	9	-
Income taxes paid	(3,782)	-
Net cash flows used in operating activities	(38,382)	(27,526)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(12,167)	(9,415)
Proceeds from disposal of property, plant and equipment	138,415	-
Increase in refundable deposits	(346)	(3)
Acquisition of intangible assets	(4,098)	(8,808)
Decrease in other current financial assets	-	63,500
Net cash flows from investing activities	121,804	45,274
Cash flows from financing activities:		
Proceeds from borrowings	77,436	93,115
Repayments of borrowings	(120,436)	(71,000)
Decrease in guarantee deposits received	(429)	-
Payment of lease liabilities	(4,294)	(4,357)
Net cash flows (used in) from financing activities	(47,723)	17,758
Net increase in cash and cash equivalents for the period	35,699	35,506
Cash and cash equivalents at beginning of period	59,573	33,899
Cash and cash equivalents at end of period	\$ 95,272	69,405

See accompanying notes to consolidated financial statements.

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

Solid State System Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
For the six months ended June 30, 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 August 6, 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 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

(Continued)

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

- (b) 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 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023

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.

(Continued)

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

(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 (%)		
			June 30, 2020	December 31, 2019	June 30, 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.

(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) Government grants

The Company recognizes an unconditional government grant related to COVID-19 in profit or loss as other income when the grant becomes receivable.

(5) 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.

(Continued)

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

(6) Lease

For sale-and-leaseback transactions, the Company applies the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of the asset. If the transfer of an asset satisfies the requirement of IFRS 15 to be accounted for as a sale of the asset, the Company derecognizes the transferred asset, then measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Accordingly, the Company recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. For leaseback transaction, the Company applies the lessee accounting policy. If the transfer of an asset does not satisfy the requirement of IFRS 15 to be accounted for as a sale of the asset, the Company continues to recognize the transferred asset and recognizes the financial liability equal to the transfer proceeds.

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

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand and petty cash	\$ 317	275	326
Checking and savings accounts	54,755	12,798	16,779
Time deposits	40,200	46,500	52,300
	\$ 95,272	59,573	69,405

Refer to note 6(17) for the disclosure of currency risk of the financial assets and liabilities of the Company.

(Continued)

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

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

	<u>June 30,</u> <u>2020</u>	<u>December</u> <u>31, 2019</u>	<u>June 30,</u> <u>2019</u>	<u>January 1,</u> <u>2019</u>
Accounts receivable (including receivables from related parties)	\$ 67,538	77,347	91,396	129,737
Less: loss allowance	<u>(527)</u>	<u>(201)</u>	<u>(346)</u>	<u>(360)</u>
	<u>\$ 67,011</u>	<u>77,146</u>	<u>91,050</u>	<u>129,377</u>
Accounts receivable, net	<u>\$ 25,661</u>	<u>22,364</u>	<u>20,836</u>	<u>26,934</u>
Accounts receivable from related parties, net	<u>\$ 41,350</u>	<u>54,782</u>	<u>70,214</u>	<u>102,443</u>

The Company applies the simplified approach to provide for its expected credit losses (ECL), which permit the use of lifetime expected loss provision for all receivables. The ECL on accounts receivable by reference to past default experience of the customers and credit risk characteristics, as well as forward looking information, including macroeconomic and relevant industry information. The expected loss allowance for accounts receivable (including receivables from related parties) was determined as follows:

	<u>June 30, 2020</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average loss rate</u>	<u>Expected loss allowance</u>
Not past due	\$ 60,419	0.099 %	60
Past due 1~89 days	4,530	1.545 %	70
Past due 90~180 days	1,578	2.978 %	47
Past due more than 180 days	<u>1,011</u>	34.619 %	<u>350</u>
Total	<u>\$ 67,538</u>		<u>527</u>
	<u>December 31, 2019</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average loss rate</u>	<u>Expected loss allowance</u>
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	<u>88</u>	31.818 %	<u>28</u>
Total	<u>\$ 77,347</u>		<u>201</u>

(Continued)

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

	June 30, 2019		
	Gross carrying amount	Weighted-average loss rate	Expected loss allowance
Not past due	\$ 84,758	0.221 %	187
Past due 1~89 days	5,319	2.989 %	159
Past due 90~180 days	1,319	-	-
Total	\$ 91,396		346

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

	For the six months ended June 30,	
	2020	2019
Beginning balance	\$ 201	360
Impairment loss recognized (reversed)	326	(14)
Ending balance	\$ 527	346

(3) Inventories

	June 30, 2020	December 31, 2019	June 30, 2019
Raw materials	\$ 11,283	3,238	32,197
Work in process	129,999	97,874	108,716
Finished goods	48,636	50,266	65,971
Merchandise inventory	214	3,800	7,343
	\$ 190,132	155,178	214,227

The details of operating costs were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Cost of goods sold	\$ 99,756	103,906	165,678	203,552
Technical service cost	1,690	2,158	4,188	2,836
Inventory devaluation loss	14,334	7,569	27,514	26,048
Unallocated production overheads	2,595	-	4,530	-
	\$ 118,375	113,633	201,910	232,436

(Continued)

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

(4) Other current financial assets

	June 30, 2020	December 31, 2019	June 30, 2019
Pledged deposits	\$ 300	300	300
Others	1,501	1,643	1,920
	<u>\$ 1,801</u>	<u>1,943</u>	<u>2,220</u>

Please refer to note 8 for the details regarding deposit guarantee as of June 30, 2020, December 31 and June 30, 2019.

(5) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office and other equipment	Total
Cost:					
Balance as of January 1, 2020	\$ 34,271	73,851	156,288	17,592	282,002
Additions	-	-	870	10,457	11,327
Disposals and write-off	(34,271)	(73,851)	(163)	-	(108,285)
Reclassification	-	-	(90)	-	(90)
Balance as of June 30, 2020	<u>\$ -</u>	<u>-</u>	<u>156,905</u>	<u>28,049</u>	<u>184,954</u>
Balance as of January 1, 2019	\$ 34,271	73,357	150,208	16,858	274,694
Additions	-	-	10,332	1,318	11,650
Balance as of June 30, 2019	<u>\$ 34,271</u>	<u>73,357</u>	<u>160,540</u>	<u>18,176</u>	<u>286,344</u>
Accumulated depreciation:					
Balance as of January 1, 2020	\$ -	20,703	66,632	8,449	95,784
Depreciation for the period	-	900	11,471	3,014	15,385
Disposals and write-off	-	(21,603)	(163)	-	(21,766)
Balance as of June 30, 2020	<u>\$ -</u>	<u>-</u>	<u>77,940</u>	<u>11,463</u>	<u>89,403</u>
Balance as of January 1, 2019	\$ -	18,667	53,050	4,330	76,047
Depreciation for the period	-	983	12,060	2,346	15,389
Balance as of June 30, 2019	<u>\$ -</u>	<u>19,650</u>	<u>65,110</u>	<u>6,676</u>	<u>91,436</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 June 30, 2020	<u>\$ -</u>	<u>-</u>	<u>78,965</u>	<u>16,586</u>	<u>95,551</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 June 30, 2019	<u>\$ 34,271</u>	<u>53,707</u>	<u>95,430</u>	<u>11,500</u>	<u>194,908</u>

(Continued)

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

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

The Company leased buildings as office space under sale and leaseback arrangement in June 2020. For the related information, please refer to note 6(9).

(6) Right-of-use assets

	Buildings
Cost:	
Balance as of January 1, 2020	\$ 12,907
Additions	26,976
Decreases	(3,875)
Balance as of June 30, 2020	\$ 36,008
Balance as of January 1, 2019	\$ -
Effects of retrospective application	12,907
Balance as of June 30, 2019	\$ 12,907
Accumulated depreciation:	
Balance as of January 1, 2020	\$ 8,781
Depreciation for the period	4,421
Decreases	(3,875)
Balance as of June 30, 2020	\$ 9,327
Balance as of January 1, 2019	\$ -
Depreciation for the period	4,390
Balance as of June 30, 2019	\$ 4,390
Book value:	
Balance as of January 1, 2020	\$ 4,126
Balance as of June 30, 2020	\$ 26,681
Balance as of January 1, 2019	\$ -
Balance as of June 30, 2019	\$ 8,517

(Continued)

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

(7) Intangible assets

	Computer software	Patent and technology license fee	Total
Cost:			
Balance as of January 1, 2020	\$ 14,350	34,427	48,777
Additions	2,906	1,192	4,098
Reclassification	-	(247)	(247)
Balance as of June 30, 2020	<u>\$ 17,256</u>	<u>35,372</u>	<u>52,628</u>
Balance as of January 1, 2019	\$ 10,473	28,095	38,568
Additions	2,798	5,917	8,715
Reclassification	-	(888)	(888)
Balance as of June 30, 2019	<u>\$ 13,271</u>	<u>33,124</u>	<u>46,395</u>
Accumulated amortization:			
Balance as of January 1, 2020	\$ 6,306	12,357	18,663
Amortization for the period	2,453	2,579	5,032
Balance as of June 30, 2020	<u>\$ 8,759</u>	<u>14,936</u>	<u>23,695</u>
Balance as of January 1, 2019	\$ 3,829	11,095	14,924
Amortization for the period	1,369	2,523	3,892
Balance as of June 30, 2019	<u>\$ 5,198</u>	<u>13,618</u>	<u>18,816</u>
Book value:			
Balance as of January 1, 2020	<u>\$ 8,044</u>	<u>22,070</u>	<u>30,114</u>
Balance as of June 30, 2020	<u>\$ 8,497</u>	<u>20,436</u>	<u>28,933</u>
Balance as of January 1, 2019	<u>\$ 6,644</u>	<u>17,000</u>	<u>23,644</u>
Balance as of June 30, 2019	<u>\$ 8,073</u>	<u>19,506</u>	<u>27,579</u>

(8) Short-term borrowings

	June 30, 2020	December 31, 2019	June 30, 2019
Secured bank loans	<u>\$ -</u>	<u>43,000</u>	<u>93,115</u>
Unused credit lines	<u>\$ 59,630</u>	<u>167,080</u>	<u>117,945</u>
Range of interest rates	<u>-</u>	<u>1.56%</u>	<u>1.56%~2.30%</u>

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

(Continued)

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

(9) Lease liabilities

The carry amount of lease liabilities was as follows:

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Current	\$ <u>4,258</u>	<u>4,158</u>	<u>8,069</u>
Non-current	\$ <u>12,428</u>	<u>-</u>	<u>481</u>

For the maturity analysis, please refer to note 6(17) of the financial instruments.

The amounts recognized in profit or loss were as follows:

	<u>For the three months ended</u> <u>June 30,</u>		<u>For the six months ended</u> <u>June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ <u>25</u>	<u>36</u>	<u>37</u>	<u>81</u>
Expenses relating to short-term leases	\$ <u>327</u>	<u>67</u>	<u>380</u>	<u>132</u>

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

	<u>For the six months ended</u> <u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Total cash outflow for leases	\$ <u>4,711</u>	<u>4,570</u>

A. Information of lease

The Company leases buildings for its office space. The leases of office space typically run for a period of 1 to 5 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.

B. Sale and leaseback

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

(10) Employee benefit

Given there were no significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off event in the prior fiscal year, the pension costs in the financial statements are measured and disclosed according to the actuarial results determined on December 31, 2019 and 2018.

(Continued)

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

For the information related to the Company's pension costs for the six months ended June 30, 2020 and 2019, please refer to note 12.

(11) Income tax

A. The amount income tax expense was as follows:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Current tax expense	\$ <u>2,978</u>	<u>-</u>	<u>2,978</u>	<u>-</u>

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

(12) 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 six months ended June 30, 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.

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

The deficit compensation for 2019 and 2018 which were approved during the stockholders' meeting held on June 18, 2020 and June 24, 2019, respectively, there were consistent with the resolution approved by the Board of Directors.

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

(13) Earnings per share

The Company calculated the EPS as follows:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Basic and diluted earnings per share:				
Net income (loss) attributable to 3S's stockholders	\$ <u>28,782</u>	<u>(33,157)</u>	<u>(6,878)</u>	<u>(79,241)</u>
Weighted average common stocks outstanding (thousand shares)	<u>80,860</u>	<u>80,860</u>	<u>80,860</u>	<u>80,860</u>
Basic and diluted EPS (TWD) \$	<u>0.36</u>	<u>(0.41)</u>	<u>(0.09)</u>	<u>(0.98)</u>

(Continued)

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

Since 3S incurred a net loss for the six months ended June 30, 2020 and 2019, there were no dilutive potential ordinary shares for the period.

(14) Revenue from contracts with customers

A. Disaggregation of revenue

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Primary geographical markets				
America	\$ 62,983	99,888	127,061	190,913
Japan	32,588	31,949	54,221	63,072
Taiwan	29,927	18,297	43,087	33,549
China	16,841	1,096	28,122	4,110
Hong Kong	11,722	5,288	18,297	7,375
	\$ 154,061	156,518	270,788	299,019
Major products				
Revenue from IC	\$ 138,121	147,074	231,671	288,240
Technical service income	15,940	9,444	39,117	10,779
	\$ 154,061	156,518	270,788	299,019

B. Contract balances

	June 30,	December	June 30,	January 1,
	2020	31, 2019	2019	2019
Contract asset:				
Contract asset— service income	\$ -	4,347	-	-
Contract liabilities:				
Contract liabilities— advance receipts	\$ 854	1,174	797	787

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

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

(Continued)

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

The amounts of revenue recognized for the six months ended June 30, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$58 and \$0, respectively.

(15) 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 six months ended June 30, 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.

(16) Non-operating income and expenses

A. Interest income

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Interest income from bank deposits	\$ 56	107	129	203
Other interest income	20	17	34	34
	\$ 76	124	163	237

B. Other income

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Rental income	\$ 612	-	1,497	-

(Continued)

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

C. Other gains and losses

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Gain on disposals of property, plant and equipment	\$ 72,451	-	72,451	-
Loss on sale-leasebacks	(10,401)	-	(10,401)	-
Foreign exchange (losses) gains, net	(956)	713	(257)	1,108
Losses on financial assets (liabilities) at fair value through profit or loss	-	(133)	-	(215)
Government grants	7,326	-	7,326	-
Others	(3,073)	340	(2,880)	361
	<u>\$ 65,347</u>	<u>920</u>	<u>66,239</u>	<u>1,254</u>

D. Finance costs

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Interest expense— short-term borrowings and other	\$ 245	297	489	569
Interest expense— lease liabilities	25	36	37	81
	<u>\$ 270</u>	<u>333</u>	<u>526</u>	<u>650</u>

(17) 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.

(Continued)

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

A. Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>Over 1 years</u>
June 30, 2020					
Non-derivative financial liabilities					
Accounts payable	\$ 42,019	42,019	42,019	-	-
Accrued payroll and bonus	9,554	9,554	8,294	1,260	-
Other accrued expenses	35,135	35,135	35,135	-	-
Lease liabilities (included in current and non-current)	16,686	17,242	2,667	1,794	12,781
Guarantee deposits received	621	621	-	-	621
	<u>\$ 104,015</u>	<u>104,571</u>	<u>88,115</u>	<u>3,054</u>	<u>13,402</u>
December 31, 2019					
Non-derivative financial liabilities					
Short-term borrowings	\$ 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
	<u>\$ 94,483</u>	<u>94,802</u>	<u>93,271</u>	<u>481</u>	<u>1,050</u>
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>
June 30, 2019					
Non-derivative financial liabilities					
Short-term borrowings	\$ 93,115	93,585	93,585	-	-
Accounts payable	15,330	15,330	15,330	-	-
Other accrued expenses	34,934	34,934	34,934	-	-
Lease liabilities (included in current and non-current)	8,550	8,611	4,438	3,692	481
	<u>\$ 151,929</u>	<u>152,460</u>	<u>148,287</u>	<u>3,692</u>	<u>481</u>

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

(Continued)

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

B. Currency risk

(a) Exposure to currency risk

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

	June 30, 2020			December 31, 2019			June 30, 2019			
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	
<u>Financial assets</u>										
<u>Monetary items</u>										
USD	\$	3,279	29.63	97,157	2,797	30.08	84,134	2,941	31.06	91,347
<u>Financial liabilities</u>										
<u>Monetary items</u>										
USD		1,639	29.63	48,564	705	30.08	21,206	727	31.06	22,581

(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 June 30, 2020 and 2019, would have decreased or increased the net loss by \$389 and \$550, respectively. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.

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

	For the three months ended June 30,				For the six months ended June 30,			
	2020		2019		2020		2019	
	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate	Foreign exchange gains (losses)	Average rate
USD	\$ (956)	-	713	-	(257)	-	1,108	-

C. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The Company's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, excluding financial instruments whose fair values approximate the carrying amounts and lease liabilities) were as follows:

(Continued)

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

	June 30, 2020				
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 95,272	-	-	-	-
Accounts receivable (including receivables from related parties)	67,011	-	-	-	-
Other current financial assets	1,801	-	-	-	-
Refundable deposits	8,325	-	-	-	-
Other non-current financial assets	2,220	-	-	-	-
	<u>\$ 174,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at amortized cost					
Accounts payable	\$ 42,019	-	-	-	-
Accrued payroll and bonus	9,554	-	-	-	-
Other accrued expenses	35,135	-	-	-	-
Lease liabilities (included current and non-current)	16,686	-	-	-	-
Guarantee deposits received	621	-	-	-	-
	<u>\$ 104,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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>

(Continued)

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

	June 30, 2019				
	Carrying Amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 69,405	-	-	-	-
Accounts receivable (including receivables from related parties)	91,050	-	-	-	-
Other current financial assets	2,220	-	-	-	-
Refundable deposits	7,955	-	-	-	-
Other non-current financial assets	3,252	-	-	-	-
	\$ 173,882	-	-	-	-
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 93,115	-	-	-	-
Accounts payable	15,330	-	-	-	-
Other accrued expenses	34,934	-	-	-	-
Lease liabilities (included in current and non-current)	8,550	-	-	-	-
	\$ 151,929	-	-	-	-

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

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

Due to 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.

(18) 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.

(Continued)

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

(19) 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.

(20) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities was as follows:

	<u>Short-term borrowings</u>	<u>Lease liabilities</u>	<u>Guarantee deposits received</u>	<u>Total liabilities from financing activities</u>
Balance as of January 1, 2020	\$ 43,000	4,158	1,050	48,208
Cash flows:				
Proceeds from borrowings	77,436	-	-	77,436
Repayments of borrowings	(120,436)	-	-	(120,436)
Payment of lease liabilities	-	(4,294)	-	(4,294)
Interest paid	-	(37)	-	(37)
Decrease in guarantee deposits received	-	-	(429)	(429)
Non-cash flows:				
Increase in lease liabilities	-	16,822	-	16,822
Interest expense	-	37	-	37
Balance as of June 30, 2020	<u>\$ -</u>	<u>16,686</u>	<u>621</u>	<u>17,307</u>

(Continued)

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

	<u>Short-term borrowings</u>	<u>Lease liabilities</u>	<u>Total liabilities from financing activities</u>
Balance as of January 1, 2019	\$ 71,000	12,907	83,907
Cash flows:			
Proceeds from borrowings	93,115	-	93,115
Repayments of borrowings	(71,000)	-	(71,000)
Repayments of lease liabilities	-	(4,357)	(4,357)
Interest paid	-	(81)	(81)
Non-cash flows:			
Interest expense	-	81	81
Balance as of June 30, 2019	<u>\$ 93,115</u>	<u>8,550</u>	<u>101,665</u>

7. Related-party Transactions

(1) Names and relationship with related parties

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

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Kingston Digital International Ltd (KDIL)	The subsidiary of Kingston Technology Company
KIOXIA Corporation (KIC)(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 June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Other related parties:				
KDIL	\$ 58,269	92,018	111,651	176,764
KIC	32,588	31,948	54,221	63,072
	<u>\$ 90,857</u>	<u>123,966</u>	<u>165,872</u>	<u>239,836</u>

(Continued)

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

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

B. Accounts receivable from related parties

<u>Related Party Category</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other related parties:			
KDIL	\$ 31,397	48,024	57,245
KIC	9,953	6,758	12,969
	<u>\$ 41,350</u>	<u>54,782</u>	<u>70,214</u>

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 2,821	3,102	5,687	6,626
Post-employment benefits	81	81	162	162
	<u>\$ 2,902</u>	<u>3,183</u>	<u>5,849</u>	<u>6,788</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>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Time deposits (recorded in other current financial assets)	Customs duty guarantee	\$ 300	300	300
Property, plant and equipment	Loan commitments	-	87,419	87,978
Refundable deposits	Warranty guarantee	5,500	5,500	5,500
		<u>\$ 5,800</u>	<u>93,219</u>	<u>93,778</u>

9. Significant Commitments and Contingencies

Except the consolidated financial statements notes 6(9), 3S has licenses to use other companies' technology, which require monthly royalty payments based on sales volume.

(Continued)

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

10. Significant Disaster Losses: None.

11. Significant Subsequent Events: None.

12. Others

- (1) The Company incurred a net loss amounting to \$366,824 as of June 30, 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.

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.

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

By function	For the three months ended June 30, 2020			For the three months ended June 30, 2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	453	41,392	41,845	454	39,813	40,267
Labor and health insurance	47	3,112	3,159	46	3,249	3,295
Pension	24	2,048	2,072	23	2,047	2,070
Others	34	1,568	1,602	33	1,462	1,495
Depreciation	4,763	5,274	10,037	4,626	5,342	9,968
Amortization	-	2,755	2,755	-	2,064	2,064

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

By function	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
By item						
Employee benefits						
Salary	900	82,012	82,912	864	81,462	82,326
Labor and health insurance	95	6,423	6,518	91	6,641	6,732
Pension	47	4,104	4,151	45	4,096	4,141
Others	66	3,086	3,152	65	3,015	3,080
Depreciation	9,484	10,322	19,806	9,126	10,653	19,779
Amortization	-	5,032	5,032	-	3,892	3,892

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.