

EGIS TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2019 and 2018**

Address: 2F, No. 360, Ruiguang Rd., Neihu Dist, Taipei City 114, Taiwan
Telephone: +886 2 26589768

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.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Review Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Financial Statements	
(1) Organization and business	8
(2) Authorization of the consolidated financial statements	8
(3) Application of new and revised accounting standards and interpretations	8~11
(4) Summary of significant accounting policies	11~15
(5) Critical accounting judgments and key sources of estimation uncertainty	15~16
(6) Significant account disclosures	16~40
(7) Related-party transactions	40
(8) Pledged assets	41
(9) Significant commitments and contingencies	41
(10) Significant loss from casualty	41
(11) Significant subsequent events	41
(12) Others	41~42
(13) Additional disclosures	
(a) Information on significant transactions	42~43
(b) Information on investees	43
(c) Information on investments in Mainland China	43
(14) Segment information	44



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Review Report

To the Board of Directors of Egis Technology Inc.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Egis Technology Inc. (“the Company”) and its subsidiaries (“the Group”) as of September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and nine months then ended as well as the changes in equity and cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 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 Standard 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 Group as of September 30, 2019 and 2018, and of its consolidated financial performance for the three months and nine months then ended as well as its consolidated cash flows for the nine months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.



The engagement partners on the audit resulting in this independent auditors' report are Wei-Ming Shih and Hwei-Chen Chang .

KPMG

Taipei, Taiwan (Republic of China)

November 11, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of September 30, 2019 and 2018

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2019, December 31, 2018, and September 30, 2018

(Expressed in Thousands of New Taiwan Dollars)

	September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (notes 6(a)(x))	\$ 2,370,371	40	2,473,863	57	1,747,271	40
1110 Financial assets at fair value through profit or loss – current (notes 6(b)(x) and 13)	63,923	1	-	-	-	-
1170 Accounts receivable, net (notes 6(d)(r)(u)(x))	1,621,835	27	614,327	14	1,240,250	28
130X Inventories (note 6(e))	394,177	7	555,919	13	838,444	19
1410 Prepaid expenses and other current assets	173,493	3	77,611	2	156,857	4
1476 Other financial assets – current (notes 6(f)(x) and 8)	694,195	11	28,681	1	26,933	-
Total current assets	<u>5,317,994</u>	<u>89</u>	<u>3,750,401</u>	<u>87</u>	<u>4,009,755</u>	<u>91</u>
Non-current assets:						
1517 Non-current financial assets at fair value through other comprehensive income (note 6(c)(x) and 13)	195,216	3	41,033	1	38,952	1
1550 Investments accounted for using equity method (note 6(g) and 13)	49,742	1	25,963	1	9,530	-
1600 Property, plant and equipment (note 6(j))	52,476	1	39,437	1	33,758	1
1755 Right-of-use assets (note 6(k))	100,402	2	-	-	-	-
1780 Intangible assets (notes 6(i)(l))	227,729	4	214,695	5	195,564	5
1840 Deferred income tax assets	40,361	-	40,361	1	50,690	1
1960 Prepayments for investments (note 6(h))	-	-	186,593	4	60,765	1
1920 Refundable deposits (note 6(x))	10,893	-	9,581	-	9,685	-
1980 Other financial assets – non-current (notes 6(x) and 8)	444	-	472	-	-	-
Total non-current assets	<u>677,263</u>	<u>11</u>	<u>558,135</u>	<u>13</u>	<u>398,944</u>	<u>9</u>
Total assets	<u>\$ 5,995,257</u>	<u>100</u>	<u>\$ 4,308,536</u>	<u>100</u>	<u>\$ 4,408,699</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
Short-term borrowings (notes 6(m)(w)(x)(aa) and 8)	\$ 1,384,315	23	961,315	22	717,436	16
Notes and accounts payable (notes 6(x))	903,517	15	396,474	9	513,865	12
Current tax liabilities	187,993	3	110,812	3	192,392	4
Current lease liabilities (notes 6(n)(x)(aa))	35,408	1	-	-	-	-
Accrued expenses and other current liabilities (notes 6(v)(x))	851,628	14	446,773	10	466,243	11
Total current liabilities	<u>3,362,861</u>	<u>56</u>	<u>1,915,374</u>	<u>44</u>	<u>1,889,936</u>	<u>43</u>
Non-current liabilities:						
Deferred income tax liabilities	1,038	-	1,038	-	-	-
Non-current lease liabilities (notes 6(n)(x)(aa))	66,613	1	-	-	-	-
Total liabilities	<u>3,430,512</u>	<u>57</u>	<u>1,916,412</u>	<u>44</u>	<u>1,889,936</u>	<u>43</u>
Equity (notes 6(r)(s)):						
Common stock	711,608	12	709,743	16	709,743	16
Common stock subscribed	1,005	-	930	-	-	-
Capital surplus	1,012,903	17	963,159	22	949,633	21
Retained earnings:						
Legal reserve	137,801	2	70,722	2	70,722	2
Special reserve	48,867	1	-	-	-	-
Unappropriated earnings	994,646	16	1,005,824	23	1,030,147	23
Other equity interest:						
Exchange differences on translation of foreign financial statements	3,557	-	3,935	-	4,001	-
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(83,824)	(1)	(52,802)	(1)	(54,883)	(1)
Deferred compensation cost arising from issuance of restricted stock	(10,165)	-	(30,647)	-	(44,707)	(1)
Treasury stock	(258,754)	(4)	(278,740)	(6)	(145,893)	(3)
Equity attributable to shareholders of the Company	<u>2,557,644</u>	<u>43</u>	<u>2,392,124</u>	<u>56</u>	<u>2,518,763</u>	<u>57</u>
Non-controlling interests (note 6(r))	7,101	-	-	-	-	-
Total equity	<u>2,564,745</u>	<u>43</u>	<u>2,392,124</u>	<u>56</u>	<u>2,518,763</u>	<u>57</u>
Total liabilities and equity	<u>\$ 5,995,257</u>	<u>100</u>	<u>\$ 4,308,536</u>	<u>100</u>	<u>\$ 4,408,699</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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018

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

	For the three months ended				For the nine months ended			
	September 30		September 30		September 30		September 30	
	2019	2018	2019	2018	2019	2018	2019	2018
	Amount	%	Amount	%	Amount	%	Amount	%
4000 Revenue (note 6(u))	\$ 2,075,413	100	1,592,413	100	5,367,061	100	4,705,947	100
5000 Costs of revenue (notes 6(e)(j) and 12)	<u>(1,161,982)</u>	<u>(56)</u>	<u>(1,027,083)</u>	<u>(64)</u>	<u>(3,155,433)</u>	<u>(59)</u>	<u>(2,998,077)</u>	<u>(64)</u>
Gross profit	<u>913,431</u>	<u>44</u>	<u>565,330</u>	<u>36</u>	<u>2,211,628</u>	<u>41</u>	<u>1,707,870</u>	<u>36</u>
Operating expenses (notes 6(d)(j)(k)(l)(n)(o)(p)(s)(v), 7 and 12):								
6100 Selling expenses	(90,738)	(4)	(85,397)	(5)	(210,717)	(4)	(215,160)	(5)
6200 Administrative expenses	(94,974)	(5)	(56,292)	(4)	(243,703)	(4)	(172,747)	(3)
6300 Research and development expenses	<u>(354,876)</u>	<u>(17)</u>	<u>(192,252)</u>	<u>(12)</u>	<u>(996,211)</u>	<u>(19)</u>	<u>(521,233)</u>	<u>(11)</u>
Total operating expenses	<u>(540,588)</u>	<u>(26)</u>	<u>(333,941)</u>	<u>(21)</u>	<u>(1,450,631)</u>	<u>(27)</u>	<u>(909,140)</u>	<u>(19)</u>
Operating income	<u>372,843</u>	<u>18</u>	<u>231,389</u>	<u>15</u>	<u>760,997</u>	<u>14</u>	<u>798,730</u>	<u>17</u>
Non-operating income and loss:								
7010 Other income (notes 6(w))	28,036	1	11,723	1	70,035	1	28,475	1
7020 Other gains and losses, net (note 6(w))	(4,478)	-	7,680	-	39,669	1	61,278	1
7050 Finance costs (note 6(n)(w))	(5,609)	-	(2,894)	-	(14,282)	-	(7,085)	-
7060 Share of profits of associates and joint ventures accounted for using equity method (note 6(g) and 13)	<u>(9,337)</u>	<u>(1)</u>	<u>(9,904)</u>	<u>(1)</u>	<u>(38,395)</u>	<u>(1)</u>	<u>(9,904)</u>	<u>-</u>
Total non-operating income and loss	<u>8,612</u>	<u>-</u>	<u>6,605</u>	<u>-</u>	<u>57,027</u>	<u>1</u>	<u>72,764</u>	<u>2</u>
Net income before tax	<u>381,455</u>	<u>18</u>	<u>237,994</u>	<u>15</u>	<u>818,024</u>	<u>15</u>	<u>871,494</u>	<u>19</u>
7950 Less: Income tax expenses (note 6(q))	<u>(87,714)</u>	<u>(4)</u>	<u>(53,797)</u>	<u>(3)</u>	<u>(169,920)</u>	<u>(3)</u>	<u>(176,380)</u>	<u>(4)</u>
Net income	<u>293,741</u>	<u>14</u>	<u>184,197</u>	<u>12</u>	<u>648,104</u>	<u>12</u>	<u>695,114</u>	<u>15</u>
Other comprehensive income:								
8310 Items that will not be reclassified subsequently to profit or loss:								
8316 Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income (notes 6(r)(x))	-	-	(48,473)	(3)	(31,022)	-	(56,058)	(1)
8349 Income tax related to items that will not be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>(48,473)</u>	<u>(3)</u>	<u>(31,022)</u>	<u>-</u>	<u>(56,058)</u>	<u>(1)</u>
8360 Items that may be reclassified subsequently to profit or loss:								
8361 Exchange differences on translation of foreign operations (notes 6(g)(r))	(818)	-	(151)	-	(378)	-	763	-
8399 Income tax related to items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(818)</u>	<u>-</u>	<u>(151)</u>	<u>-</u>	<u>(378)</u>	<u>-</u>	<u>763</u>	<u>-</u>
Other comprehensive income (loss), net	<u>(818)</u>	<u>-</u>	<u>(48,624)</u>	<u>(3)</u>	<u>(31,400)</u>	<u>-</u>	<u>(55,295)</u>	<u>(1)</u>
Comprehensive income	<u>\$ 292,923</u>	<u>14</u>	<u>135,573</u>	<u>9</u>	<u>616,704</u>	<u>12</u>	<u>639,819</u>	<u>14</u>
Net income attributable to:								
8610 Shareholders of the Company	\$ 289,571	14	184,197	12	659,612	12	695,114	15
8620 Non-controlling interests	<u>4,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,508)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 293,741</u>	<u>14</u>	<u>184,197</u>	<u>12</u>	<u>648,104</u>	<u>12</u>	<u>695,114</u>	<u>15</u>
Total comprehensive income attributable to:								
8710 Shareholders of the Company	\$ 288,753	14	135,573	9	628,212	12	639,819	14
8720 Non-controlling interests	<u>4,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,508)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 292,923</u>	<u>14</u>	<u>135,573</u>	<u>9</u>	<u>616,704</u>	<u>12</u>	<u>639,819</u>	<u>14</u>
Earnings per share (in New Taiwan dollars) (note 6(t)):								
9750 Basic earnings per share	<u>\$ 4.23</u>		<u>2.64</u>		<u>9.65</u>		<u>9.91</u>	
9850 Diluted earnings per share	<u>\$ 4.19</u>		<u>2.61</u>		<u>9.55</u>		<u>9.81</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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2019 and 2018
 (Expressed in Thousands of New Taiwan Dollars)

	Attributable to shareholders of the Company											Total equity
	Retained earnings			Other equity interest								
	Common stock	Capital Surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation cost arising from issuance of restricted stock	Treasury stock	Total	Non-controlling interests	
Balance at January 1, 2018	704,908	942,038	11,403	-	695,814	3,238	-	-	(97,734)	2,264,082	-	2,264,082
Effects of retrospective application of Equity at beginning of period after adjustments	-	-	-	-	-	-	1,175	-	-	1,175	-	1,175
Appropriation and distribution of retained earnings:	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	59,319	-	(59,319)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(301,462)	-	-	-	-	(301,462)	-	(301,462)
Purchase of treasury share	-	-	-	-	-	-	-	-	(145,893)	(145,893)	-	(145,893)
Issuance of common stock from exercise of employee stock options	4,895	5,045	-	-	-	-	-	-	-	5,525	-	5,525
Compensation cost of employee stock options	-	2,490	-	-	-	-	-	-	-	2,490	-	2,490
Compensation cost arising from restricted shares of stock issued to employees	-	-	-	-	-	-	-	53,027	-	53,027	-	53,027
Retirement of restricted shares of stock issued to employees	(60)	-	-	-	-	-	-	-	-	-	-	-
Net income in 2018	-	-	-	-	695,114	-	-	-	-	695,114	-	695,114
Other comprehensive income in 2018	-	-	-	-	-	763	(56,058)	-	-	(55,295)	-	(55,295)
Total comprehensive income in 2018	-	-	-	-	695,114	763	(56,058)	-	-	639,819	-	639,819
Balance at September 30, 2018	709,743	949,633	70,722	-	1,030,147	4,001	(54,883)	(44,707)	(145,893)	2,518,763	-	2,518,763
Balance at January 1, 2019	709,743	963,159	70,722	-	1,005,824	3,935	(52,802)	(30,647)	(278,740)	2,392,124	-	2,392,124
Appropriation and distribution of retained earnings:	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	67,079	-	(67,079)	-	-	-	-	-	-	-
Special reserve	-	-	-	48,867	(48,867)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(554,844)	-	-	-	-	(554,844)	-	(554,844)
Treasury stock transferred to employees	-	-	-	-	-	-	-	-	19,986	19,926	-	19,926
Acquisition of subsidiaries	-	(60)	-	-	-	-	-	-	-	-	18,609	18,609
Issuance of common stock from exercise of employee stock options	1,895	22,723	-	-	-	-	-	-	-	24,693	-	24,693
Compensation cost of employee stock options	-	27,014	-	-	-	-	-	-	-	27,014	-	27,014
Compensation cost arising from restricted shares of stock issued to employees	-	-	-	-	-	-	-	20,482	-	20,519	-	20,519
Retirement of restricted shares of stock issued to employees	(30)	-	-	-	-	-	-	-	-	-	-	-
Net income in 2019	-	-	-	-	659,612	(378)	(31,022)	-	-	659,612	(11,508)	648,104
Other comprehensive income in 2019	-	-	-	-	-	(378)	(31,022)	-	-	(31,400)	-	(31,400)
Total comprehensive income in 2019	-	-	-	-	659,612	(378)	(31,022)	-	-	628,212	(11,508)	616,704
Balance at September 30, 2019	711,608	1,012,903	137,801	48,867	994,646	3,557	(63,824)	(10,165)	(258,754)	2,557,644	7,101	2,564,745

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2019	2018
Cash flows from operating activities:		
Income before income taxes	\$ 818,024	871,494
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation	44,054	11,302
Amortization	31,497	16,885
Net loss (gain) on financial assets at fair value through profit or loss	(2,733)	755
Interest expense	14,282	7,085
Interest income	(62,041)	(27,822)
Share-based payments	47,533	55,517
Share of loss of associates and joint ventures accounted for using equity method	38,395	9,904
Loss on disposal of assets	718	-
Gain arising from lease modifications	(139)	-
Total adjustments to reconcile profit	<u>111,566</u>	<u>73,626</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(1,007,508)	(510,961)
Inventories	161,742	(138,891)
Prepayments and other current assets	(88,536)	(27,802)
Total changes in operating assets	<u>(934,302)</u>	<u>(677,654)</u>
Changes in operating liabilities:		
Notes and accounts payable	507,043	(128,733)
Accrued expenses and other current liabilities	400,429	153,300
Total changes in operating liabilities	<u>907,472</u>	<u>24,567</u>
Total changes in operating assets and liabilities	<u>(26,830)</u>	<u>(653,087)</u>
Cash provided by operations	902,760	292,033
Interest received	53,328	28,834
Interest paid	(14,334)	(6,705)
Income taxes paid	(99,831)	(175,861)
Net cash provided by operating activities	<u>841,923</u>	<u>138,301</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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the nine months ended September 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2019	2018
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(62,140)	-
Acquisition of financial assets at fair value through profit or loss	(61,190)	-
Proceeds from disposal of financial assets at fair value through profit or loss	-	57,157
Acquisition of investments accounted for using equity method	(43,232)	(19,517)
Increase in prepayments for investments	-	(60,765)
Net cash flows from acquisition of subsidiaries	34,034	-
Acquisition of property, plant and equipment	(27,742)	(11,227)
Acquisition of intangible assets	(12,978)	(11,808)
Decrease (increase) in other financial assets	(656,770)	505,471
Increase in refundable deposits	(741)	-
Increase in other non-current assets	-	90
Net cash provided by (used in) investing activities	(830,759)	459,401
Cash flows from financing activities:		
Proceeds from short-term borrowings	4,902,554	2,415,107
Repayments of short-term borrowings	(4,479,554)	(1,978,190)
Payment of lease liabilities	(26,705)	-
Cash dividends distributed to shareholders	(554,844)	(301,462)
Proceeds from exercise of employee stock options	24,693	5,525
Purchase of treasury stock	-	(145,893)
Treasury stock transferred to employees	19,926	-
Net cash used in financing activities	(113,930)	(4,913)
Effects of foreign exchange rate changes	(726)	771
Net increase (decrease) in cash and cash equivalents	(103,492)	593,560
Cash and cash equivalents at beginning of the period	2,473,863	1,153,711
Cash and cash equivalents at end of the period	\$ 2,370,371	1,747,271

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2019 and 2018

(expressed in Thousands of New Taiwan Dollars, unless otherwise specified)

1. Organization and business

Egis Technology Inc. (the “Company”) was incorporated on December 26, 2007 as a company limited by shares under the laws of the Republic of China (“R.O.C.”) and registered under the Ministry of Economic Affairs, R.O.C. The address of its registered office is 2F No. 360 Ruiguang Rd., Neihu Dist., Taipei City, Taiwan. The Company and its subsidiaries (collectively the “Group”) are primarily engaged in research, development, and sales of data security software, biometric identification software and hardware. On December 23, 2015, the Company’s common shares became listed on the Taipei Exchange (formerly “GreTai Securities Market”).

2. Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on November 11, 2019.

3. Application of new and revised accounting standards and interpretations:

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

- (i) IFRS 16 “Leases”

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

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

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

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

2) As a lessee

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

The Group decided to apply recognition exemptions to short-term and low-value lease assets such as offices, office equipment and employees dormitories.

At transition, if the leases were previously classified as operating leases under IAS 17, its right-of-use assets and lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- a. Applied a single discount rate to a portfolio of leases with similar characteristics.
- b. Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- c. Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$114,259 thousands of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.13%.

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 120,393
Recognition exemption for:	
Short-term leases	(1,438)
Leases of low-value assets	(136)
	\$ 118,819
Lease liabilities recognized at January 1, 2019 (Discounted using the incremental borrowing rate at January 1, 2019)	\$ 114,259

(b) The impact of IFRS endorsed by FSC but not yet effective

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 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

<u>New, Revised or Amended Standards and Interpretations</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, 2021
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020

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

4. Summary of significant accounting policies

- (a) Statement of compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statements for the year ended December 31, 2018. Please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018 for the related information.

- (b) Basis of consolidation

- (i) List of subsidiaries included in the consolidated financial statements :

<u>Name of Investor</u>	<u>Name of Subsidiary</u>	<u>Principal Activity</u>	<u>Shareholding</u>		
			<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
The Company	Egis Inc.(Cayman Islands)	Investment and holding activity	100.00 %	100.00 %	100.00 %
The Company	Egis Technology (Japan) Inc.	Sale of data security software and biometric authentication software and hardware	100.00 %	100.00 %	100.00 %
The Company	Egis Tec USA Inc.	Technology development	100.00 %	100.00 %	100.00 %
The Company	Egis Technology Korea Inc.	Customer service, business promotion and technical support	100.00 %	100.00 %	100.00 %
The Company	Igistec Co., Ltd.	Technology development	74.69 % (Note 1)	-	-

Note 1: The Group acquired and took control over Igistec on January 14, 2019. Therefore, Igistec has been included in the Group's consolidated financial statements from the date the control commenced.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries which are not included in the consolidated financial statements: None.

(c) Investments accounted for using equity method

Investments accounted for using the equity method include investments in associates and interests in joint venture.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The operating results as well as assets and liabilities of associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated balance sheet at cost, and adjusted thereafter, to recognize the Group's share of profit or loss and other comprehensive income (loss) of the associate and joint venture, as well as the distribution received. The Group also recognizes its share in the changes in the equities of associates and joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of an associate or a joint venture recognized at the date of acquisition, is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Group subscribes to additional shares in an associate or a joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the net assets of the associate or joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription to the shares of associate or joint venture by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate or joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate or joint venture had directly disposed of the related assets or liabilities.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Unrealized profits resulting from transactions between the Group and an associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture. Unrealized losses on transactions with associates or joint venture are eliminated in the same way, except to the extent that the underlying asset is impaired.

Adjustments are made to associates' and joint ventures' financial statements to conform to the accounting policies applied by the Group.

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

(i) Identifying a lease

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

- 1) The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) The Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset during the whole contract period, wherein the supplier does not have the right to change this operation; or
 - the Group designed the asset in a way that predetermines how, and for what purpose, it will be used during the whole contract period.

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

(ii) As a lessee

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

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

- fixed payments ;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

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

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

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

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

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group applies the recognition exemptions to its offices, office equipment and employee dormitories, which qualifies as short-term leases and low-value asset leases. The Group recognizes the lease payments associated with these leases as expenses on a straight-line basis over their lease terms.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Income taxes

Tax expense in the consolidated interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 “Interim Financial Reporting”. Income tax expense is best estimated by multiplying pre-tax income for the interim reporting period with the effective annual tax rate as forecasted by the management, and is recognized as current tax expense.

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 effective tax rate at the time of realizations or liquidation and shall be recognized directly in equity or other comprehensive income as tax expense.

For a change in tax rate that is substantively enacted in an interim period, the effect of the change is spread in the tax rate by an adjustment to the estimated annual effective income tax rate.

(f) Business combination

Business combination are accounted for using the acquisition method. Goodwill is measured as the excess of the acquisition-date fair value of the consideration transferred, including any non-controlling interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed and recognize any additional assets or liabilities that are identified in that review, and shall recognize a gain on the bargain purchase thereafter.

Acquisition-related costs are expensed as incurred except for the costs related to issuance of debt or equity instruments.

For each business combination non-controlling interests in the acquiree is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Group’s financial statements. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively adjusted, or additional assets or liabilities are recognized to reflect the newly acquired information on facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim financial reporting” and endorsed by the FSC) requires management to make judgments, estimates 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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The preparation of the consolidated interim financial statements, estimates and underlying assumptions, are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2018. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2018.

6. Significant account disclosures

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

(a) Cash and cash equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 932	728	695
Bank deposits	615,679	513,814	160,302
Time deposits	1,753,760	1,867,176	1,586,274
Repurchase agreements – bond	-	92,145	-
	<u>\$ 2,370,371</u>	<u>2,473,863</u>	<u>1,747,271</u>

(b) Financial assets at fair value through profit or loss

	September 30, 2019	December 31, 2018	September 30, 2018
Open-end mutual fund	<u>\$ 63,923</u>	<u>-</u>	<u>-</u>

(c) Financial assets at fair value through other comprehensive income

	September 30, 2019	December 31, 2018	September 30, 2018
Equity instruments at fair value through other comprehensive income :			
Unlisted common shares	<u>\$ 195,216</u>	<u>41,033</u>	<u>38,952</u>

The Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes.

No strategic investments were disposed in the nine months ended September 30, 2019 and 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Accounts receivable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts receivable	\$ 1,622,173	616,524	1,265,442
Less: Allowance for impairment	<u>(338)</u>	<u>(2,197)</u>	<u>(25,192)</u>
	<u><u>\$ 1,621,835</u></u>	<u><u>614,327</u></u>	<u><u>1,240,250</u></u>

The Group applies the simplified approach to provide for its expected credit loss, i.e. the use of lifetime expected loss provision for all receivables. The loss allowance provision was determined as follows:

	<u>September 30, 2019</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,621,835	0.0001%	-
More than 180 days past due	<u>338</u>	100%	<u>338</u>
	<u><u>\$ 1,622,173</u></u>		<u><u>338</u></u>
	<u>December 31, 2018</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 614,327	0.0001%	-
More than 180 days past due	<u>2,197</u>	100%	<u>2,197</u>
	<u><u>\$ 616,524</u></u>		<u><u>2,197</u></u>
	<u>September 30, 2018</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,240,250	0.0001%	-
More than 180 days past due	<u>25,192</u>	100%	<u>25,192</u>
	<u><u>\$ 1,265,442</u></u>		<u><u>25,192</u></u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The movement in the allowance for accounts receivable was as follows:

	For the nine months ended September 30	
	2019	2018
Balance at January 1	\$ 2,197	24,560
Write-off	(1,917)	-
Foreign exchange losses (gain)	<u>58</u>	<u>632</u>
Balance at September 30	<u><u>\$ 338</u></u>	<u><u>25,192</u></u>

(e) Inventories

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 193,346	17,249	15,410
Work in process	200,591	508,556	821,918
Finished goods	<u>240</u>	<u>30,114</u>	<u>1,116</u>
	<u><u>\$ 394,177</u></u>	<u><u>555,919</u></u>	<u><u>838,444</u></u>

For the three months and nine months ended September 30, 2019 and 2018, the cost of inventories sold, which were included in costs of revenue, amounted to \$1,005,005, \$1,027,919, \$2,692,139 and \$2,984,475, respectively, of which the write-downs of inventories to net realizable value amounted to \$8,474, \$24,713, \$69,146 and \$37,253, respectively.

(f) Other financial assets – current

	September 30, 2019	December 31, 2018	September 30, 2018
Time deposit (with original maturities of between three months and one year)	\$ 661,152	9,215	9,629
Restricted bank deposits	10,000	10,000	10,000
Other receivables	<u>23,043</u>	<u>9,466</u>	<u>7,304</u>
	<u><u>\$ 694,195</u></u>	<u><u>28,681</u></u>	<u><u>26,933</u></u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Investments accounted for using equity method

The Group's investments accounted for using equity method at the reporting date were as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Associates	\$ 49,742	-	-
Joint ventures	-	25,963	9,530
	<u>\$ 49,742</u>	<u>25,963</u>	<u>9,530</u>

The Group's financial information on its investments in individually insignificant investments accounted for using equity method (please refer to note 13(b)) at the reporting date was as follows. The financial information is included in the consolidated financial statements.

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Attributable to the Group:				
Net income (loss)	\$ (9,337)	(9,904)	(38,395)	(9,904)
Other comprehensive income	(62)	(83)	414	(83)
Total comprehensive income (loss)	<u>\$ (9,399)</u>	<u>(9,987)</u>	<u>(37,981)</u>	<u>(9,987)</u>

(h) Prepayments for investments

As of December 31 and September 30, 2018, the Group invested the amounts of \$186,593 and \$60,765, respectively, to acquire the common shares of its investees for the development techniques of its optical sensing and fingerprint identification. During the first quarter of 2019, the prepayments for investments were reclassified to investments in subsidiary, investments accounted for using the equity method, and financial assets at fair value through other comprehensive income.

(i) Acquisition of subsidiaries

(i) The cost of acquisition

On January 14, 2019 (the acquisition date), the Group acquired 74.69% ownership of Igistec Co., Ltd. (Igistec) for a cash consideration of \$59,497, and obtained control over it since then.

Igistec is primarily engaged in IC design and research of thin-film transistor sensor readout circuits; which was the main reason the Group acquired it to expand the development of its biometric products.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Identifiable net assets acquired in a business combination

The consideration paid for the acquisition, as well as fair value information of assets acquired and liabilities assumed from the acquisition on the acquisition date are as follows:

Purchase consideration:

Cash	\$	59,497
Add: Non-controlling interests in the acquiree (proportionate share of the fair value of the identifiable net assets)		18,609
Less: Fair value of identifiable assets acquired and liabilities assumed		
Cash		48,531
Prepaid expensed and other current assets		1,710
Property, plant and equipment		491
Intangible assets—technology		27,352
Intangible assets—software		292
Other non-current assets		571
Accrued expenses and other current liabilities		(5,417)
		73,530
Goodwill		\$ 4,576

The Group will continually inspect the aforementioned items during valuation period; and if there is information discovered within one year from the acquisition date about facts and circumstances that existed at the acquisition date which leads to an adjustment to the above provision amounts, or any additional provisions as at the acquisition date, then the acquisition accounting will be revised.

(iii) Intangible assets—technology

Intangible assets—technology is amortized on a straight-line basis over the estimated future economic useful life of 8 years.

Goodwill arising from the acquisition of Igistec is due to its expertise in the design of thin-film transistor sensor readout circuit, which did not meet the criteria for intangible assets; therefore, it cannot be recognized individually. None of the goodwill recognized is expected to be deductible for income tax purposes.

(iv) Pro forma information

From the acquisition date to September 30, 2019, Igistec contributed revenue of \$0 and net loss of \$(43,049) to the Group's results. However, if this acquisition had occurred on January 1, 2019, the management estimates that the consolidated revenue and net income after tax from January 1 to September 30, 2019 would have been \$5,367,061 and \$647,988, respectively.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Property, plant and equipment

	<u>Tooling</u>	<u>Research and development equipment</u>	<u>Leasehold improvement</u>	<u>Other equipment</u>	<u>Total</u>
Carrying amounts:					
Balance at September 30, 2019	\$ <u>872</u>	<u>17,410</u>	<u>5,765</u>	<u>28,429</u>	<u>52,476</u>
Balance at January 1, 2019	\$ <u>1,230</u>	<u>9,172</u>	<u>3,994</u>	<u>25,041</u>	<u>39,437</u>
Balance at September 30, 2018	\$ <u>151</u>	<u>6,157</u>	<u>4,620</u>	<u>22,830</u>	<u>33,758</u>

There were no significant additions, disposals, or recognition and reversal of impairment losses of property, plant and equipment for the nine months ended September 30, 2019 and 2018. Information on depreciation for the period is discussed in note 12. Please refer to note 6(i) of the 2018 annual consolidated financial statement for other related information.

(k) Right-of-use assets

	<u>Buildings</u>
Cost:	
Balance at January 1, 2019	\$ -
Effects of retrospective application of IFRS 16	<u>114,259</u>
Balance at January 1, 2019 after adjustments	114,259
Additions	25,210
Disposals	<u>(13,380)</u>
Balance at September 30, 2019	<u>\$ 126,089</u>
Accumulated depreciation:	
Balance at January 1, 2019	\$ -
Depreciation	28,470
Disposals	<u>(2,783)</u>
Balance at September 30, 2019	<u>\$ 25,687</u>
Carrying amount:	
Balance at September 30, 2019	<u>\$ 100,402</u>

The Group leases office, employee dormitories and other office equipment under operating leases for the nine months ended September 30, 2018, please refer to note 6(o).

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Intangible assets

	<u>Goodwill</u>	<u>Patent</u>	<u>Technology</u>	<u>Computer software</u>	<u>Total</u>
Costs:					
Balance at January 1, 2019	\$ 106,827	25,714	84,726	53,516	270,783
Acquisition through business combination	4,576	-	27,352	305	32,233
Additions	-	-	-	12,978	12,978
Disposals	-	-	-	(842)	(842)
Effect of exchange rate changes	-	-	-	13	13
Balance at September 30, 2019	<u>\$ 111,403</u>	<u>25,714</u>	<u>112,078</u>	<u>65,970</u>	<u>315,165</u>
Balance at January 1, 2018	\$ 106,827	25,714	84,726	14,873	232,140
Additions	-	-	-	11,808	11,808
Balance at September 30, 2018	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>26,681</u>	<u>243,948</u>
Accumulated amortization and impairment loss:					
Balance at January 1, 2019	\$ -	16,325	23,830	15,933	56,088
Acquisition through business combination	-	-	-	13	13
Amortization	-	5,267	10,364	15,866	31,497
Disposals	-	-	-	(163)	(163)
Effect of exchange rate changes	-	-	-	1	1
Balance at September 30, 2019	<u>\$ -</u>	<u>21,592</u>	<u>34,194</u>	<u>31,650</u>	<u>87,436</u>
Balance at January 1, 2018	\$ -	9,302	13,239	8,958	31,499
Amortization	-	5,267	7,943	3,675	16,885
Balance at September 30, 2018	<u>\$ -</u>	<u>14,569</u>	<u>21,182</u>	<u>12,633</u>	<u>48,384</u>
Carrying amount:					
Balance at September 30, 2019	<u>\$ 111,403</u>	<u>4,122</u>	<u>77,884</u>	<u>34,320</u>	<u>227,729</u>
Balance at January 1, 2019	<u>\$ 106,827</u>	<u>9,389</u>	<u>60,896</u>	<u>37,583</u>	<u>214,695</u>
Balance at September 30, 2018	<u>\$ 106,827</u>	<u>11,145</u>	<u>63,544</u>	<u>14,048</u>	<u>195,564</u>

(m) Short-term borrowings

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Secured bank loans	<u>\$ 1,384,315</u>	<u>961,315</u>	<u>717,436</u>
Unused credit facilities	<u>\$ 1,674,165</u>	<u>1,244,425</u>	<u>1,481,464</u>
Interest rate	<u>1.06%~1.30%</u>	<u>1.15%~3.04%</u>	<u>1.15%~3.04%</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Lease liabilities

The Group's lease liabilities were as follows:

	September 30, 2019
Current	\$ <u><u>35,408</u></u>
Non-current	\$ <u><u>66,613</u></u>

For the maturity analysis, please refer to note 6(x).

The amounts recognized in profit or loss were as follows:

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Interest expenses on lease liabilities	\$ <u><u>574</u></u>	<u><u>1,829</u></u>
Expenses relating to short-term leases	\$ <u><u>1,234</u></u>	<u><u>4,127</u></u>

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

	For the nine months ended September 30, 2019
Total cash outflow for leases	\$ <u><u>32,661</u></u>

(i) Buildings leases

The Group leases buildings for its office, which typically run for a period of three to five years.

(ii) Other leases

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases of offices, office equipment, employees dormitories and warehouses.

(o) Operating lease

There were no significant additions in operating lease contracts for the nine months ended September 30, 2018. Please refer to note 6(l) of the consolidated financial statements for the year ended December 31, 2018 for the details.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Employee benefits

The Company contributes monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with the respective local regulations.

For the three months and nine months ended September 30, 2019 and 2018, the Group recognized the pension expenses of \$6,472, \$4,389, \$18,488 and \$12,479, respectively, in relation to the defined contribution plans.

(q) Income taxes

(i) Income tax expense

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current income tax expense				
Current period	\$ 86,920	53,318	167,719	175,149
Withholding tax in foreign jurisdiction	<u>794</u>	<u>479</u>	<u>2,201</u>	<u>1,231</u>
Income tax expense	<u>\$ 87,714</u>	<u>53,797</u>	<u>169,920</u>	<u>176,380</u>

(ii) For the nine months ended September 30, 2019 and 2018, there was no income tax expense recognized in other comprehensive income.

(iii) The Company's income tax returns for all fiscal years through 2017 were examined and approved by the R.O.C. income tax authorities.

(r) Capital and other equity

Except for the following disclosures, there was no significant change in capital and other equity for the nine months ended September 30, 2019 and 2018. For the related information, please refer to note 6(o) of the consolidated financial statements for the year ended December 31, 2018.

(i) Common stock

As of September 30, 2019, December 31 and September 30, 2018, the Company's authorized shares of common stock amounted to \$1,000,000 in total, at par value of \$10 per share, and consisted of 100,000 thousand shares, of which 71,161 thousand shares, 70,974 thousand shares and 70,974 thousand shares, respectively, were issued and outstanding.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The movements in outstanding shares of common stock (excluding unvested restricted stock issued to employees) were as follows (in thousands of shares):

	Ordinary shares	
	For the nine months ended September 30	
	2019	2018
Balance at January 1	68,111	70,036
Exercise of employee stock options	189	489
Vested restricted stock issued to employees	2	-
Purchase of treasury stock	-	(1,220)
Treasury stock transferred to employees	200	-
Balance at September 30	68,502	69,305

(ii) Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
Paid-in capital in excess of par value	\$ 915,213	881,352	822,245
Compensation cost of employee stock options	13,091	23,757	28,256
Restricted stock issued to employees	57,645	58,050	99,132
Treasury share transactions	26,954	-	-
	\$ 1,012,903	963,159	949,633

(iii) Retained earnings and dividend policy

1) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to its shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

The Company's articles of incorporation stipulate that at least 10% of annual net income, after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance, together with the unappropriated earnings from the previous years, can be distributed as dividends to stockholders. The appropriation of earnings should be proposed by the Board of Directors and approved by the shareholders.

Earnings are distributed in consideration of long-term interest of its shareholders, operating and the overall economic environment and the Company's long-term development and stability in its financial position. Earnings can be distributed by stock or cash, referring to the dividend ratio of others in the same industry and capital market, in which a cash dividend comprises at least 20% of the total dividend distribution.

The appropriations of 2018 and 2017 earnings were resolved by the shareholder's meeting held on June 18, 2019, and May 30, 2018, respectively; and the distribution to shareholders were as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Dividends per share (NT\$)</u>	<u>Amount</u>	<u>Dividends per share (NT\$)</u>	<u>Amount</u>
Dividends distributed to ordinary shareholders :				
Cash	\$ 8.09	<u>554,844</u>	4.25	<u>301,462</u>

(iv) Treasury shares

- 1) The Company's Board of Directors meeting resolved on March 5 and September 18, 2018, respectively, to buy back the Company's ordinary shares. The number of shares repurchased should not exceed 5 percent of all shares issued for the purpose of transferring them to its employees within three years. The Company purchased 2,600 thousand of its own ordinary shares for an aggregate amount of \$278,740.

In accordance with Article 28-2 of the Securities and Exchange Act, the number of shares repurchased should not exceed 10 percent of all shares issued and outstanding. Also, the value of the repurchased shares should not exceed the sum of the Company's retained earnings, share premium, and realized capital reserves. The shares bought back by the Company in order to transfer to its employees shall be transferred within three years from the date of buyback. The shares not transferred within the said period shall be deemed as not issued by the company. Besides, treasury shares can not be collateralized and do not bear any shareholder rights prior to being sold to third parties.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) The movement in treasury shares were as follows (in thousands of shares):

	<u>2019</u>	<u>2018</u>
Balance at January 1	2,600	-
Additions	-	1,220
Transfer (note 6(s).4)	<u>(200)</u>	<u>-</u>
Balance at September 30	<u><u>2,400</u></u>	<u><u>1,220</u></u>

(v) Other equity

	Exchange differences on translation of foreign operations	Deferred compensation cost arising from issuance of restricted stock	Unrealized gains (losses) from financial assets at fair value through other comprehensive income
Balance at January 1, 2019	\$ 3,935	(30,647)	(52,802)
Foreign exchange difference arising from translation of foreign operations:			
The Group	(792)	-	-
Joint ventures and associates	414	-	-
Deferred compensation cost	-	20,482	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>(31,022)</u>
Balance at September 30, 2019	<u><u>\$ 3,557</u></u>	<u><u>(10,165)</u></u>	<u><u>(83,824)</u></u>
Balance at January 1, 2018	\$ 3,238	(97,734)	-
Effects of retrospective application	<u>-</u>	<u>-</u>	<u>1,175</u>
Balance at January 1, 2018 after adjustments	3,238	(97,734)	1,175
Foreign exchange difference arising from translation of foreign operations:			
The Group	846	-	-
Joint ventures	(83)	-	-
Deferred compensation cost	-	53,027	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>(56,058)</u>
Balance at September 30, 2018	<u><u>\$ 4,001</u></u>	<u><u>(44,707)</u></u>	<u><u>(54,883)</u></u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Non-controlling interests (net after tax)

	For the nine months ended September 30	
	2019	2018
Balance at January 1	\$ -	-
Acquisition of subsidiary	18,609	-
Equity attributable to non-controlling interest:		
Net loss	(11,508)	-
Balance at September 30	\$ 7,101	-

(s) Share-based payment

(i) Employee stock options

There were no significant changes for share-based payment for the nine months ended September 30, 2019 and 2018. Please refer to note 6(p) of the 2018 annual consolidated financial statement for the information on stock option plans and the assumptions adopted in the valuation model. Information in employee stock option plans were as follows (Amounts in New Taiwan dollars):

	For the nine months ended September 30			
	2019		2018	
	Weighted- average exercise price	Number of shares	Weighted- average exercise price	Number of shares
Outstanding, beginning of year	\$ 110.60	498,000	112.76	643,000
Exercised	125.34	(197,000)	115.11	(48,000)
Forfeited	-	-	127.18	(4,000)
Outstanding, at September 30	100.94	301,000	112.47	591,000
Exercisable, at September 30	100.94	301,000	105.39	399,000

September 30, 2019				
Year of grant	Number of shares outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number of shares exercisable
2014/12	272,500	0.21	\$ 98.20	272,500
2015	28,500	1.09	127.18	28,500
	301,000			301,000

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018				
Year of grant	Number of shares outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number of shares exercisable
2014/12	285,000	0.96	\$ 98.20	285,000
2015	213,000	1.84	127.18	213,000
	498,000			498,000
September 30, 2018				
Year of grant	Number of shares outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number of shares exercisable
2014/12	300,000	1.21	\$ 98.20	300,000
2015	291,000	2.09	127.18	99,000
	591,000			399,000

(ii) Restricted stock

During the meeting on June 22, 2017, the Company's shareholders approved a resolution to issue 650,000 shares of restricted stock to full-time employees who conformed to certain requirements. The Company issued 572,000 shares of restricted stock to its employees, and the effective date of capital increase was set on December 5, 2017. The employees who were granted restricted stocks are entitled to purchase them without any exercise price. The restricted stock received by the employees shall be deposited and held in an escrow account and could not be sold, pledged, transferred, gifted, or disposed of in any other forms during the vesting period; nevertheless, the rights of a shareholder (such as voting and election at the shareholders' meeting) are the same as the rights of the Company's shareholders but are executed by the custodian. During the vesting period, the restricted shares of stock are entitled to any earnings distribution. The Company will recall and retire those shares from employees who do not meet the vesting conditions.

1) 2017 plan of issuance of restricted stock

Type	2017 condition 1	2017 condition 2
Granted date	2017.12.04	2017.12.04
Number of shares granted	350,000 shares	222,000 shares
Vested period	The restricted shares will be vested into 116,600, 116,700 and 116,700 shares at the year end of 2017, 2018, 2019, respectively, based on the individual performance of the employee.	The restricted shares will be vested into 74,000, 74,000 and 74,000 shares at the year end of 2018, 2019, 2020, respectively, based on the individual performance of the employee.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) Movements in the number of restricted shares of stock (in thousands) was as follows:

	For the nine months ended September 30	
	2019	2018
Balance at January 1	563	572
Forfeited	-	(9)
Balance at September 30	563	563
Accumulated vested shares	(304)	(117)
Unvested shares	259	446

The fair value of restricted stock was NT\$246 per share, which was determined by reference to the closing price of the company's common stock traded on the Taiwan stock Exchange at the grant date.

- (iii) Treasury stock transferred to employees

On July 10, 2019, the Company transferred 200 thousand shares to its employees at exercise price of NT\$99.93 per share. The compensation cost was measured at fair value using the difference between the exercise price and the market price of the share at the grant date, which was NT\$235 per share.

For the three months and nine months ended September 30, 2019, the compensation costs to employees both amounted to \$27,014.

- (iv) Expenses resulted from share-based payments

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Employee stock options / Treasury stock transferred to employees	\$ 27,014	892	27,014	2,490
Restricted stock	6,827	17,676	20,519	53,027
	\$ 33,841	18,568	47,533	55,517

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Earnings per share (“EPS”)

(i) Basic earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Net income attributable to the shareholders of the Company	\$ 289,571	184,197	659,612	695,114
Weighted-average number of ordinary shares outstanding (in thousands)	68,523	69,852	68,343	70,137
Basic earnings per share (in New Taiwan dollars)	<u>\$ 4.23</u>	<u>2.64</u>	<u>9.65</u>	<u>9.91</u>

(ii) Diluted earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Net income attributable to the shareholders of the Company	\$ 289,571	184,197	659,612	695,114
Weighted-average number of ordinary shares outstanding (in thousands)	68,523	69,852	68,343	70,137
Effect of diluted potential ordinary shares:				
Stock options	199	68	218	96
Employees compensation	268	424	325	478
Restricted stock	200	102	197	119
Weighted-average shares of ordinary shares outstanding (in thousands) (including effect of dilutive potential ordinary shares)	<u>69,190</u>	<u>70,446</u>	<u>69,083</u>	<u>70,830</u>
Diluted earnings per share (in New Taiwan dollars)	<u>\$ 4.19</u>	<u>2.61</u>	<u>9.55</u>	<u>9.81</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Primary geographical markets:				
Taiwan	\$ 584	2,543	4,835	6,927
Asia	<u>2,074,829</u>	<u>1,589,870</u>	<u>5,362,226</u>	<u>4,699,020</u>
	<u>\$ 2,075,413</u>	<u>1,592,413</u>	<u>\$ 5,367,061</u>	<u>4,705,947</u>
Major products/ services line:				
Biometric authentication IC sensor and its application	\$ 2,074,829	1,591,289	5,363,912	4,701,291
Data security protection and its application	584	1,124	3,089	3,470
Non-recurring engineering service revenue	-	-	60	1,186
	<u>\$ 2,075,413</u>	<u>1,592,413</u>	<u>\$ 5,367,061</u>	<u>4,705,947</u>

(ii) Contract balances

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts receivable	\$ 1,622,173	616,524	1,265,442
Less: Allowance for impairment	<u>(338)</u>	<u>(2,197)</u>	<u>(25,192)</u>
Total	<u>\$ 1,621,835</u>	<u>614,327</u>	<u>1,240,250</u>

Please refer to note 6(d) for details on accounts receivable and allowance for impairment.

(v) Remuneration to employees and directors

Pursuant to the Company's articles of incorporation, the Company shall distribute no less than 5% of its profits in the current period as remuneration to its employees, and no more than 1% to its directors. Nevertheless, the profits in the current period should be reserved for offsetting the accumulated deficit, if any, prior to distributing the remuneration to the employees and directors. The aforementioned remuneration to employees could be distributed in the form of cash or stock to the employees of the Company's subsidiaries conforming to certain requirements. The remuneration to directors only can be distributed by cash.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months and nine months ended September 30, 2019 and 2018, the Company accrued its remuneration to employees amounting to \$20,016, \$12,634, \$71,074 and \$46,308, respectively, and its remuneration to directors amounting to \$4,003, \$2,527, \$9,109 and \$9,262, respectively, which were calculated by using the net profits before tax in the current period (excluding the remuneration to employees and directors), multiplied by the distribution ratio of remuneration to employees and directors under the Company's Article of Incorporation, and recognized them as operating expenses. The differences between the distributed and estimated amounts, if any, shall be accounted for as a change in accounting estimate and recognized as profit or loss in the distribution year.

For the years ended December 31, 2018 and 2017, the Company accrued its remuneration to employees amounting to \$46,308 and \$38,934, respectively, and its remuneration to directors amounting to \$8,972 and \$7,787, respectively. The differences between the aforementioned accrued remuneration and the amounts approved by the Board of Directors were \$6 and \$1, respectively, which shall be accounted as changes in accounting estimates. Related information would be available at the Market Observation Post System website.

(w) Non-operating income and loss

(i) Other income

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Interest income	\$ 22,907	11,287	62,041	27,822
Others	5,129	436	7,994	653
	<u>\$ 28,036</u>	<u>11,723</u>	<u>70,035</u>	<u>28,475</u>

(ii) Other gains and losses

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Foreign exchange gains (losses), net	\$ (3,976)	7,681	38,850	65,099
Net gain (loss) on financial assets at fair value through profit or loss	1,161	-	2,733	(755)
Others	(1,663)	(1)	(1,914)	(3,066)
	<u>\$ (4,478)</u>	<u>7,680</u>	<u>39,669</u>	<u>61,278</u>

(iii) Finance costs

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Interest expense on bank loans	\$ (5,035)	(2,894)	(12,453)	(7,085)
Lease liabilities	(574)	-	(1,829)	-
	<u>\$ (5,609)</u>	<u>(2,894)</u>	<u>(14,282)</u>	<u>(7,085)</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Financial instruments

Except for the following disclosures, there was no significant change in the fair value of the Group's financial instruments and in the degree of exposure to credit risk and market risk arising from financial instruments. Please refer to note 6(v) of the consolidated financial statements for the year ended December 31, 2018 for the related information.

(i) Categories of financial instruments

1) Financial assets

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Financial assets at fair value through profit or loss	\$ 63,923	-	-
Financial assets at fair value through other comprehensive income	195,216	41,033	38,952
Financial assets at amortized cost:			
Cash and cash equivalents	2,370,371	2,473,863	1,747,271
Accounts receivable, net	1,621,835	614,327	1,240,250
Other financial assets — current and non-current	694,639	29,153	26,933
Refundable deposits	10,893	9,581	9,685
Subtotal	<u>4,697,738</u>	<u>3,126,924</u>	<u>3,024,139</u>
Total	<u>\$ 4,956,877</u>	<u>3,167,957</u>	<u>3,063,091</u>

2) Financial liabilities

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Financial liabilities at amortized cost:			
Short-term borrowings	\$ 1,384,315	961,315	717,436
Notes and accounts payable	903,517	396,474	513,865
Accrued expenses	632,599	252,916	300,195
Lease liabilities — current and non-current	102,021	-	-
	<u>\$ 3,022,452</u>	<u>1,610,705</u>	<u>1,531,496</u>

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of loan agreements. As of September 30, 2019, December 31 and September 30, 2018 the Group had unused credit facilities of \$1,674,165, \$1,244,425 and \$1,481,464, respectively.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>
September 30, 2019			
Short-term borrowings carrying floating interest rates \$	1,384,901	1,384,901	-
Notes and accounts payable	903,517	903,517	-
Accrued expenses	632,599	632,599	-
Lease liabilities	<u>105,120</u>	<u>35,729</u>	<u>69,391</u>
	<u>\$ 3,026,137</u>	<u>2,956,746</u>	<u>69,391</u>
December 31, 2018			
Short-term borrowings carrying floating interest rates \$	961,972	961,972	-
Notes and accounts payable	396,474	396,474	-
Accrued expenses	<u>252,916</u>	<u>252,916</u>	<u>-</u>
	<u>\$ 1,611,362</u>	<u>1,611,362</u>	<u>-</u>
September 30, 2018			
Short-term borrowings carrying floating interest rates \$	718,038	718,038	-
Notes and accounts payable	513,865	513,865	-
Accrued expenses	<u>300,195</u>	<u>300,195</u>	<u>-</u>
	<u>\$ 1,532,098</u>	<u>1,532,098</u>	<u>-</u>

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

(iii) Foreign currency risk

1) Exposure to foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The foreign currency used in these transactions is mainly the US dollar (USD). The Group management continuously controls the net exposure in an acceptable level.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency, other than the respective functional currencies of Group entities, was as follows:

September 30, 2019					
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
USD	\$ 139,014	31.04	4,314,995	1 %	43,150
<u>Financial liabilities</u>					
USD	47,424	31.04	1,472,041	1 %	14,720
December 31, 2018					
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
USD	\$ 96,587	30.715	2,966,670	1 %	29,667
<u>Financial liabilities</u>					
USD	18,284	30.715	561,578	1 %	5,616
September 30, 2018					
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
USD	\$ 96,036	30.53	2,931,979	1 %	29,320
<u>Financial liabilities</u>					
USD	24,840	30.53	758,365	1 %	7,584

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Gains or losses on monetary items

Information related to gains and losses (included unrealized and realized) by the fluctuation of foreign exchange rate is as follows:

	For the three months ended September 30			
	2019		2018	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (18,083)	31.1979	(13,892)	30.6695
<u>Financial liabilities</u>				
USD:TWD	13,504	31.1979	21,234	30.6695

	For the nine months ended September 30			
	2019		2018	
	Foreign exchange gains (losses) (in thousands)	Exchange rate	Foreign exchange gains (losses) (in thousands)	Exchange rate
<u>Financial assets</u>				
USD:TWD	\$ 21,548	31.0618	70,374	29.9364
<u>Financial liabilities</u>				
USD:TWD	16,529	31.0618	(7,080)	29.9364

(iv) Information on fair value

1) Financial instruments not measured at fair value

The Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

2) Financial instruments measured at fair value

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value on a recurring basis. The table below analyzes the financial instruments measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

		September 30, 2019				
		Carrying	Fair Value			
		Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss :						
Open-end mutual fund		\$ 63,923	63,923	-	-	63,923
Financial assets at fair value through other comprehensive income—non-current:						
Unlisted common shares		195,216	-	-	195,216	195,216
		<u>\$ 259,139</u>	<u>63,923</u>	<u>-</u>	<u>195,216</u>	<u>259,139</u>
		December 31, 2018				
		Carrying	Fair Value			
		Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income—non-current:						
Unlisted common shares		\$ 41,033	-	-	41,033	41,033
		<u>\$ 41,033</u>	<u>-</u>	<u>-</u>	<u>41,033</u>	<u>41,033</u>
		September 30, 2018				
		Carrying	Fair Value			
		Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income—non-current:						
Unlisted common shares		\$ 38,952	-	-	38,952	38,952
		<u>\$ 38,952</u>	<u>-</u>	<u>-</u>	<u>38,952</u>	<u>38,952</u>

3) Valuation techniques and assumptions used in fair value measurement

A financial instrument is regarded as being quoted in an active market if quoted prices are ready.

The fair value of open-end fund beneficiary certificates with standard terms and conditions and traded on active liquid markets are determined based on quoted market prices.

Measurements of fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value, measured by using valuation technique that can be extrapolated from either similar financial instruments or discounted cash flow method or other valuation techniques, including models, is calculated based on available market data at the reporting date.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The fair value of unlisted common shares is estimated by using the market approach and is determined by reference to valuations of similar companies, recent financing activities, market conditions and other economic indicators. The significant unobservable input is the liquidity discount. Since the possible changes in liquidity discount did not cause any significant potential impact on the financial statements, therefore, the quantitative information need not be disclosed.

(v) Transfer between fair value levels

There are no transfers between fair value levels for the nine months ended September 30, 2019 and 2018.

(vi) Reconciliation of Level 3 fair values (financial assets classified as financial assets at fair value through other comprehensive income) were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Opening balance	\$ 195,216	87,425	41,033	95,010
Loss recognized in other comprehensive income	-	(48,473)	(31,022)	(56,058)
Additions	-	-	<u>185,205</u>	-
Ending Balance	<u><u>\$ 195,216</u></u>	<u><u>38,952</u></u>	<u><u>195,216</u></u>	<u><u>38,952</u></u>

(y) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6(w) of the consolidated financial statements for the year ended December 31, 2018.

(z) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2018. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2018. Please refer to note 6(x) of the consolidated financial statements for the year ended December 31, 2018 for further details.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(aa) Investing and financing activities not affecting current cash flow

- (i) The Group's non-cash transactions from investing activities were acquisition of right-of-use assets by lease. Please refer to note 6(k).
- (ii) Reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1, 2019</u>	<u>Effect of retrospective adoption of IFRS 16</u>	<u>Cash flows</u>	<u>Non-cash changes Additions to lease liabilities</u>	<u>September 30, 2019</u>
Short-term borrowings	\$ 961,315	-	423,000	-	1,384,315
Lease liabilities	-	114,259	(26,705)	14,467	102,021
Total amount of liabilities from financing activities	<u>\$ 961,315</u>	<u>114,259</u>	<u>396,295</u>	<u>14,467</u>	<u>1,486,336</u>
		<u>January 1, 2018</u>	<u>Cash flows</u>	<u>September 30, 2018</u>	
Short-term borrowings		<u>\$ 280,519</u>	<u>436,917</u>	<u>717,436</u>	

7. Related-party transactions

(a) Significant transactions with related parties:

- (i) Research and development expenses and prepayments

The Group has authorized the joint venture to assist and develop the optical fingerprint sensor technology. For the three months and nine months ended September 30, 2018, the incurred expenses were \$5,000 and \$5,000, respectively, which were included in research and development expenses. As of September 30, 2018, development expense prepaid to the joint venture amounted to \$31,684 according to the authorized development contract, and was included in prepayments and other current assets.

(b) Compensation for key management personnel

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 38,274	27,623	71,375	52,215
Post-employment benefits	259	189	716	567
Share-based payments	<u>30,858</u>	<u>11,438</u>	<u>38,549</u>	<u>34,303</u>
	<u>\$ 69,391</u>	<u>39,250</u>	<u>110,640</u>	<u>87,085</u>

Please refer to note 6(s) for information on share-based payment.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

8. Pledged assets

Assets	Pledged to secure	September 30, 2019	December 31, 2018	September 30, 2018
Other financial assets—current (time deposits)	Deposit for purchase fulfillment	\$ 10,000	10,000	10,000
Other financial assets—non- current (time deposits)	Performance guarantee	444	472	-
		<u>\$ 10,444</u>	<u>10,472</u>	<u>10,000</u>

9. Significant commitments and contingencies

Shenzhen Goodix Technology Co., Ltd. (Goodix) has filed a patent infringement complaint with the Beijing Intellectual Property Court against the Company in July 2019, wherein it requested the Company to pay the compensation amounting to CNY 50,500 thousand (approximately NT\$228,000 thousand) for the damage. The Company received the complaint in August 2019, and engaged attorney to take appropriate action. The final result remains unknown and the management predicts no immediate material negative effect on the Group's operating and finance activities.

10. Significant loss from casualty: None.

11. Significant subsequent events: None.

12. Others

(a) Employee benefits, depreciation and amortization of the Group were categorized by function as below:

By function	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:						
Salaries	-	256,090	256,090	-	145,576	145,576
Labor and health insurance	-	9,076	9,076	-	5,340	5,340
Pension	-	6,472	6,472	-	4,389	4,389
Other employees benefits	-	10,141	10,141	-	7,064	7,064
Depreciation	693	14,968	15,661	495	3,338	3,833
Amortization	-	10,689	10,689	-	5,797	5,797

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

By item	By function	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
Salaries		-	643,060	643,060	-	406,427	406,427
Labor and health insurances		-	26,358	26,358	-	16,088	16,088
Pension		-	18,488	18,488	-	12,479	12,479
Other employees benefits		-	25,639	25,639	-	18,829	18,829
Depreciation		2,080	41,974	44,054	1,487	9,815	11,302
Amortization		-	31,497	31,497	-	16,885	16,885

(b) The operation of the Group is not significantly influenced by seasonal or cyclical factors.

13. Additional disclosures

(a) Information on significant transactions:

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the nine months ended September 30, 2019:

- (i) Financing provided to other parties: None.
- (ii) Guarantees and endorsements provided to other parties: None.
- (iii) Marketable securities held at reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Nomura Global Financial Bond Fund	-	Financial assets at fair value through profit or loss	98	32,882	-	32,882	
The Company	Nomura NN (L) Asian Debt (Hard Currency)	-	Financial assets at fair value through profit or loss	1	31,041	-	31,041	
The Company	Gingy Technology Inc.	-	Financial assets at fair value through other comprehensive income	859	10,011	3.18 %	10,011	
The Company	THEIA LIMITED	-	Financial assets at fair value through other comprehensive income	100,000	-	11.20 %	-	
The Company	Integrated Digital Technologies, Inc.	-	Financial assets at fair value through other comprehensive income	4,000	-	13.96 %	-	
The Company	AIStorm, Inc.	-	Financial assets at fair value through other comprehensive income	4,000	123,065	17.35 %	123,065	
The Company	MEMS DRIVE INC.	-	Financial assets at fair value through other comprehensive income	188	62,140	3.25 %	62,140	

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital: None.
- (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: None.
- (viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: None.
- (ix) Information about derivative instrument transactions: None.
- (i) Business relationships and significant intercompany transactions: None.
- (b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the nine months ended September 30, 2019 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2019			Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				September 30, 2019	December 31, 2018	Shares (in thousands)	Percentage of Ownership	Carrying Value			
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,796	209	209	Parent/subsidiary
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	93,972	83,213	6,600	100.00 %	1,392	(9,979)	(9,979)	Parent/subsidiary
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	4,833	(9,539)	(9,539)	Parent/subsidiary
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	18,233	18,233	20	100.00 %	23,956	6,574	6,574	Parent/subsidiary
The Company	Tyrafos Technologies Co., Limited	Hong Kong	Technology development	19,517	19,517	5,265	65.00 %	-	(51,264)	(26,309)	Joint venture
The Company	Igistec Co., Ltd.	Taiwan	Technology development	59,497	-	16,527	74.69 %	25,535	(43,164)	(33,962)	Parent/subsidiary
The Company	Sirius Wireless Pte. Ltd.	Singapore	Technology development	61,760	-	40,080	50.05 %	49,742	(24,926)	(12,086)	Associates

Note: The above intercompany transactions of subsidiaries have been eliminated when preparing the consolidated financial statements.

- (c) Information on investments in Mainland China: None.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

14. Segment information

The Group is mainly engaged in the research and development, design and sale of data security software and biometric identification software and hardware. The overall operating results are regularly reviewed by the Group's chief operating decision maker to assess its performance. Therefore, the Group has only one reportable segment. For the nine months ended September 30, 2019 and 2018, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.