

EGIS TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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The independent auditors' 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' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Egis Technology Inc. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Egis Technology Inc. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Egis Technology Inc.
Chairman: Sen Chou, Lo
Date: March 17, 2020



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Egis Technology Inc.:

Opinion

We have audited the consolidated financial statements of Egis Technology Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were significant in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

1. Impairment of goodwill

Please refer to Note 4(m) "Impairment of non-financial assets" for the significant accounting policies on goodwill impairment, Note 5 "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of goodwill impairment and Note 6(l) "Intangible assets" for the related disclosures.

Description of key audit matter:

For impairment test, the recoverable amount of goodwill of relevant cash-generating units involves management's judgment and estimation with respect to the future cash flows and key assumptions which are complex and involve significant uncertainty. Accordingly, the assessment of impairment of goodwill has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included: obtaining the assessment of goodwill impairment provided by the management; assessing the appropriateness of the valuation model and key assumptions, including the discount rate, expected sales growth rate and future cash flow projections, used by the management in measuring the recoverable amount; and assessing the adequacy of the Group's disclosures with respect to the related information.

2. Valuation of inventories

Please refer to Note 4(h) "Inventories" for the significant accounting policies, Note 5 "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of inventory valuation and Note 6(e) "Inventories" for the related disclosures.

Description of key audit matter:

The inventory of the Group is primarily the biometric fingerprint touch sensor to be integrated into the electronic products of the customers. Inventories are measured at the lower of cost and net realizable value. With the rapid development in technology, the advance of new electronic products may significantly affect customers' demands, which can lead to the obsolescence of the Group's inventory that may result in the cost of inventory to be higher than its net realizable value. Consequently, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included: obtaining the inventory aging report; analyzing the fluctuation of aging inventory and selecting samples to verify their accuracy; inspecting the sales status of inventories during the subsequent period; evaluating whether the valuation of inventories was accounted for in accordance with the Group's accounting policies; performing a retrospective review of the Group's historical accuracy of judgments with reference to inventory valuation and compare them with the current year's calculation to verify the appropriateness of the estimation and assumption used for inventory valuation.

Other Matter

The Company has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unqualified audit opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, interpretation as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain profession skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, base on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)

March 17, 2020

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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' 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' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
4000 Revenue (note 6(u))	\$ 7,358,441	100	5,909,333	100
5000 Costs of revenue (notes 6(e)(j) and 12)	<u>(4,221,134)</u>	<u>(57)</u>	<u>(3,825,431)</u>	<u>(65)</u>
Gross profit	<u>3,137,307</u>	<u>43</u>	<u>2,083,902</u>	<u>35</u>
Operating expenses (notes 6(d)(j)(k)(l)(n)(o)(p)(s)(v), 7 and 12):				
6100 Selling expenses	(315,972)	(4)	(293,377)	(5)
6200 Administrative expenses	(277,169)	(4)	(212,325)	(4)
6300 Research and development expenses	<u>(1,441,514)</u>	<u>(20)</u>	<u>(852,023)</u>	<u>(14)</u>
Total operating expenses	<u>(2,034,655)</u>	<u>(28)</u>	<u>(1,357,725)</u>	<u>(23)</u>
Operating income	<u>1,102,652</u>	<u>15</u>	<u>726,177</u>	<u>12</u>
Non-operating income and loss:				
7010 Other income (note 6(w))	90,379	1	44,568	1
7020 Other gains and losses, net (note 6(w))	(74,789)	(1)	80,414	1
7050 Finance costs (notes 6(n)(w))	(19,332)	-	(9,917)	-
7060 Share of profits of associates and joint ventures accounted for using equity method (notes 6(g) and 13)	<u>(46,709)</u>	<u>(1)</u>	<u>6,854</u>	<u>-</u>
Total non-operating income and loss	<u>(50,451)</u>	<u>(1)</u>	<u>121,919</u>	<u>2</u>
Net income before taxes	1,052,201	14	848,096	14
7950 Less: Income tax expenses (note 6(q))	<u>(199,498)</u>	<u>(2)</u>	<u>(177,305)</u>	<u>(3)</u>
Net income	<u>852,703</u>	<u>12</u>	<u>670,791</u>	<u>11</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))	(31,022)	(1)	(53,977)	(1)
8349 Income tax related to items that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(31,022)</u>	<u>(1)</u>	<u>(53,977)</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))	(1,574)	-	697	-
8399 Income tax related to items that may be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(1,574)</u>	<u>-</u>	<u>697</u>	<u>-</u>
Other comprehensive income (loss), net	<u>(32,596)</u>	<u>(1)</u>	<u>(53,280)</u>	<u>(1)</u>
Comprehensive income	<u>\$ 820,107</u>	<u>11</u>	<u>617,511</u>	<u>10</u>
Net income attributable to:				
8610 Shareholders of the Company	\$ 862,681	12	670,791	11
8620 Non-controlling interests	<u>(9,978)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 852,703</u>	<u>12</u>	<u>670,791</u>	<u>11</u>
Total comprehensive income attributable to:				
8710 Shareholders of the Company	\$ 830,085	11	617,511	10
8720 Non-controlling interests	<u>(9,978)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 820,107</u>	<u>11</u>	<u>617,511</u>	<u>10</u>
Earnings per share (in New Taiwan dollars) (note 6(t)) :				
9750 Basic earnings per share	<u>\$ 12.60</u>		<u>9.62</u>	
9850 Diluted earnings per share	<u>\$ 12.46</u>		<u>9.54</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Attributable to shareholders of the Company											
	Retained earnings					Other equity interest						
	Common stock	Common stock subscribed	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	Non-controlling interests	Total equity
Balance at January 1, 2018	704,908	4,415	942,038	11,403	-	695,814	3,238	-	(97,734)	-	-	2,264,082
Effects of retrospective application	-	-	-	-	-	-	-	1,175	-	-	-	1,175
Balance at January 1, 2018 after adjustments	704,908	4,415	942,038	11,403	-	695,814	3,238	1,175	(97,734)	-	-	2,265,257
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	-	59,319	-	(59,319)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	(301,462)	-	-	-	-	-	(301,462)
Purchase of treasury share	-	-	-	-	-	-	-	-	(278,740)	-	-	(278,740)
Issuance of common stock from exercise of employee stock options	4,895	(3,485)	15,508	-	-	-	-	-	-	-	-	16,918
Compensation cost of employee stock options	-	-	2,810	-	-	-	-	-	-	-	-	2,810
Compensation cost arising from restricted shares of stock issued to employees	-	-	2,743	-	-	-	-	-	67,087	-	-	69,830
Retirement of restricted shares of stock issued to employees	(60)	-	60	-	-	-	-	-	-	-	-	-
Net income in 2018	-	-	-	-	-	670,791	-	-	-	-	-	670,791
Other comprehensive income in 2018	-	-	-	-	-	-	697	(53,977)	-	-	-	(53,280)
Total comprehensive income in 2018	-	-	-	-	-	670,791	697	(53,977)	-	-	-	617,511
Balance at December 31, 2018	709,743	930	963,159	70,722	-	1,005,824	3,935	(52,802)	(30,647)	(278,740)	-	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)
Treasury stock transferred to employees	-	-	(90)	-	-	-	-	-	29,979	-	-	29,889
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	18,609	18,609
Issuance of common stock from exercise of employee stock options	2,940	295	33,995	-	-	-	-	-	-	-	-	37,230
Compensation cost of employee stock options	-	-	41,071	-	-	-	-	-	-	-	-	41,071
Compensation cost arising from restricted shares of stock issued to employees	-	-	1,988	-	-	-	-	-	25,502	-	-	27,490
Retirement of restricted shares of stock issued to employees	(30)	-	30	-	-	-	-	-	-	-	-	-
Net income in 2019	-	-	-	-	-	862,681	(1,574)	(31,022)	-	-	-	862,681
Other comprehensive income in 2019	-	-	-	-	-	-	(1,574)	(31,022)	-	-	-	(32,596)
Total comprehensive income in 2019	-	-	-	-	-	862,681	(1,574)	(31,022)	-	-	-	830,085
Balance at December 31, 2019	712,653	1,225	1,040,153	137,801	48,867	1,197,715	2,361	(83,824)	(5,145)	(248,761)	8,631	2,811,676

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Income before income taxes	\$ 1,052,201	848,096
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation	60,490	15,545
Amortization	42,826	24,589
Expected credit loss (gain) / Provision for bad debt expense	-	(1,300)
Net loss on financial assets at fair value through profit or loss	415	755
Interest expense	19,332	9,917
Interest income	(80,063)	(41,767)
Share-based payments	68,561	72,640
Share of loss of associates and joint ventures accounted for using equity method	46,709	(6,854)
Loss on disposal of assets	724	11
Gain arising from lease modifications	(139)	-
Total adjustments to reconcile profit	<u>158,855</u>	<u>73,536</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	270,972	116,262
Inventories	(206,988)	143,634
Prepayments and other current assets	(81,476)	(13,763)
Total changes in operating assets	<u>(17,492)</u>	<u>246,133</u>
Changes in operating liabilities:		
Notes and accounts payable	165,264	(246,124)
Accrued expenses and other current liabilities	233,091	130,648
Total changes in operating liabilities	<u>398,355</u>	<u>(115,476)</u>
Total changes in operating assets and liabilities	<u>380,863</u>	<u>130,657</u>
Cash provided by operations	1,591,919	1,052,289
Interest received	77,962	41,045
Interest paid	(19,253)	(9,501)
Income taxes paid	(177,101)	(178,646)
Net cash provided by operating activities	<u>1,473,527</u>	<u>905,187</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	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	(98,508)	-
Proceeds from disposal of financial assets at fair value through profit or loss	30,243	57,157
Acquisition of investments accounted for using equity method	(43,232)	(19,517)
Increase in prepayments for investments	-	(186,593)
Net cash flows from acquisition of subsidiaries	34,034	-
Acquisition of property, plant and equipment	(45,157)	(21,222)
Proceeds from disposal of property, plant and equipment	3	-
Acquisition of intangible assets	(20,070)	(38,643)
Decrease (increase) in other financial assets	(287,165)	504,985
Decrease (increase) in refundable deposits	(399)	194
Net cash provided by (used in) investing activities	<u>(492,391)</u>	<u>296,361</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	6,967,837	3,575,763
Repayments of short-term borrowings	(6,735,666)	(2,894,967)
Payment of lease liabilities	(35,669)	-
Cash dividends distributed to shareholders	(554,844)	(301,462)
Proceeds from exercise of employee stock options	37,230	16,918
Purchase of treasury stock	-	(278,740)
Treasury stock transferred to employees	29,889	-
Net cash provided by (used in) financing activities	<u>(291,223)</u>	<u>117,512</u>
Effects of foreign exchange rate changes	<u>(1,546)</u>	<u>1,092</u>
Net increase in cash and cash equivalents	688,367	1,320,152
Cash and cash equivalents at beginning of the period	<u>2,473,863</u>	<u>1,153,711</u>
Cash and cash equivalents at end of the period	<u>\$ 3,162,230</u>	<u>2,473,863</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Issued in Chinese)
EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 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 issue by the Board of Directors on March 17, 2020.

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.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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(k).

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.

For leases previously classified as operating leases under IAS 17, at transition, 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 lease liabilities for leases with lease term that ends within 12 months at the date of initial application;
- c. Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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3) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$114,259 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:

	<u>January 1, 2019</u>
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	<u>(136)</u>
	<u>\$ 118,819</u>
Lease liabilities recognized at January 1, 2019 (Discounted using the incremental borrowing rate at January 1, 2019)	<u>\$ 114,259</u>

(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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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
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- (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 IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

The significant accounting policies presented in the consolidated financial statements are summarized as below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the Group's consolidated financial statements.

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

- (b) Basis of preparation

- (i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost:

- 1) Financial assets measured at fair value through profit or loss are measured at fair value; and
- 2) Financial assets at fair value through other comprehensive income are measured at fair value.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its controlled entities (subsidiaries). The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company balances, transactions, and the resulting unrealized income and loss are eliminated in full on consolidation. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, the financial statements of subsidiaries will be adjusted to align their accounting policies with those adopted by the Company.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The differences between the adjustment of the non-controlling interests and the fair value of the consideration paid or received is recognized in equity and attributed to the shareholders of the Company.

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

Name of Investor	Name of Subsidiary	Principal Activity	Shareholding	
			December 31, 2019	December 31, 2018
The Company	Egis Inc.(Cayman Islands)	Investment and holding activity	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 %
The Company	Egis Tec USA Inc.	Technology development	100.00 %	100.00 %
The Company	Egis Technology Korea Inc.	Customer service, business promotion and technical support	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.

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

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(d) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period ("the reporting date"), monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for an investment in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Group's consolidated financial statements at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the Group's consolidated financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Group are entirely reclassified to profit or loss. In the case of a partial disposal that does not result in the Group losing control over a subsidiary, the proportionate share of accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Group's ownership interest in an associate or joint venture, the proportionate share of the accumulated exchanges in equity is reclassified to profit or loss.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

- (i) It expects to be realized, or intended to be sold or consumed in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issuance of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash consist of cash on hand, checking deposits and demand deposits. Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits and repurchase agreements that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

On initial recognition, financial assets are classified as: measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing its financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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Subsequent to initial recognition, these assets are measured at amortized cost, using the effective interest method less impairment loss. Interest income, foreign exchange gains and losses, and recognition (reversal) of impairment loss are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment loss are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, other comprehensive income accumulated in equity are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income. On derecognition, other comprehensive income accumulated in equity is reclassified to retained earnings and is never reclassified to profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive the dividends is established (usually the ex-dividend date).

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, accounts receivable, refundable deposit and other financial assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

· bank balances and repurchase agreements-bond for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights of the cash inflow from the assets are terminated, when the Group transfers substantially all the risks and rewards of ownership of the financial assets to other enterprises, or when the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets; in these cases, the transferred assets are not derecognized.

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognized at the amount of consideration received, less, the direct issuing cost.

Interest and gain or loss related to financial liabilities are recognized in profit or loss, and included in non-operating income and loss.

2) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

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(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated based on weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to the location and condition calculated ready for sale. Net realizable value represents the estimated selling price in the ordinary course of business, less, all estimated costs of completion and necessary selling expenses.

(i) 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, but not control or joint control, over its financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The Group recognizes its share of the profit or loss and other comprehensive income of those associates from the date on which significant influence commences until the date on which significant influence ceases. The Group recognizes any changes of its proportionate share in the investee within capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in percentage of ownership.

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

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

When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method and measures the retained interest at fair value from the date when its investment ceases to be an associate. The difference between the fair value of retained interest and proceeds from disposing of a part interest in the associate, and the carrying amount of the investment at the date the equity method was discontinued is recognized in profit or loss. The Group accounts for all the amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would have been required if the associates had directly disposed of the related assets or liabilities. If a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss (or retained earnings) on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (or retained earnings) when the equity method is discontinued. If the Group's ownership interest in

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an associate is reduced while it continues to apply the equity method, the Group reclassifies the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest to profit or loss (or retained earnings).

When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. If the adjustments are charged to capital surplus and the capital surplus resulting from investments accounted for using the equity method is not sufficient, the remaining difference is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28, unless the entity is exempted from applying the equity method as specified in that Standard.

When assessing the classification of a joint arrangement, the Group considers the structure and legal form of the arrangement, the terms in the contractual arrangement, and other facts and circumstances. When the facts and circumstances change, the Group reevaluates whether the classification of the joint arrangement has changed.

(j) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of assets less their residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

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The estimated useful lives of property, plant and equipment are as follows: tooling- 2 years; research and development equipment- 3 years; leasehold improvement- 3 years; and other equipment- 3 to 7 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date, with the effect of any change in estimate accounted for on a prospective basis.

(k) 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 customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - The customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - The relevant decisions about how and for what purpose the asset is used are predetermined; and
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designs the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(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.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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 evaluated and 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, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is subsequently 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 in the lease term resulting from a change of the Group's assessment on whether it will exercise an extension or termination option; or
- there is any lease modifications in lease subject, scope of the lease or other terms.

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 for 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 properties, and lease liabilities as a separate line item respectively in the balance sheet.

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.

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Applicable before December 31, 2019

Leases are classified as finance leases when the Group assumes substantially all the risks and rewards incidental to ownership of the assets. All other leases are classified as operating leases and are not recognized in the Group's balance sheets.

Payments made under an operating lease (excluding insurance and maintenance expense) are charged to expense over the lease term on a straight-line basis. Contingent rents are recognized as expense in the period in which it is incurred.

(l) Intangible assets

(i) Goodwill

Goodwill arising from acquisitions of subsidiaries is accounted for as intangible assets. Please refer to Note 4(s) for the description of the measurement of goodwill at initial recognition. Goodwill arising from the acquisitions of associates is included in the carrying amount of investments in associates. Goodwill is not amortized but is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other separately acquired intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the following estimated useful lives: computer software- 1 to 3 years; patent- 3 to 15 years; technology- 8 years.

The residual values, amortization period, and amortization method are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment of non-financial assets

The Group assesses at the end of each reporting date whether there is any indication that the carrying amounts of non-financial assets (other than inventories, contract assets, and deferred tax assets) may be impaired. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually or when there are indications of impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. Goodwill arising from a business combination is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an individual asset or CGU is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other non-financial assets, an impairment loss is reversed only to the extent that the asset's carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the assets in prior years.

(n) Treasury stock

Common stock repurchased by the Group treated as treasury stock (a contra-equity account) is reported at acquisition cost (including all directly accountable costs). When treasury stock is sold, the excess of sales proceeds over cost is accounted for as capital surplus—treasury stock. If the sales proceeds are less than the cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus—treasury stock. If the remaining balance of capital surplus—treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

If a treasury stock is retired, the weighted-average cost of the retired treasury stock is written off against the par value and the capital surplus premium, if any, of the stock retired on a pro rata basis. If the weighted-average cost written off exceeds the sum of the par value and the capital surplus, the difference is accounted for as a reduction of capital surplus—treasury stock, or a reduction of retained earnings for any deficiency where capital surplus—treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of the par value and capital surplus, if any, of the stock retired, the difference is accounted for as an increase in capital surplus—treasury stock.

(o) Revenue recognition

(i) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(Continued)

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

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to the defined contribution pension plans are expensed during the year in which employees render services.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payment as a result of past service provided by the employees, and the obligation can be estimated reliably.

(q) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, and the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The grant date of options for employees to subscribe new shares for a cash injection is the date when the price and shares that employees can subscribe have been notified to its employees.

(r) Income taxes

Income tax comprise current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- (i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill, if any.

(Continued)

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

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

(s) **Business combination**

The Group accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of the acquisition-date fair value of consideration transferred, including the amount of 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 amount calculated above is a deficit balance, the Group recognizes that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

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 new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(t) Earnings per share (“EPS”)

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS are calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group’s dilutive potential common shares include employee stock options, restricted stock to employee and profit sharing for employees to be settled in the form of common stock.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group’s chief operating decision maker, who decides on the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements, in conformity with the Regulations and Taiwan-IFRSs, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in the future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

(a) Impairment of goodwill

For impairment test, the recoverable amount of goodwill of relevant cash-generating units involves management’s judgment and estimation with respect to the future cash flows and key assumptions which are complex and involve significant uncertainty. Any changes in these estimates could result in significant adjustment in future years.

Refer to note 6(l) for further description of the impairment of goodwill.

(b) Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. The Group uses judgment and estimates to determine the net realizable value of inventory at each reporting date.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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Due to rapid technological changes, the Group estimates the net realizable value of inventory, taking into account obsolescence and unmarketable items at the reporting date, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

Refer to note 6(e) for more details of the valuation of inventories.

6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 869	728
Bank deposits	762,961	513,814
Time deposits	2,398,400	1,867,176
Repurchase agreements—bond	-	92,145
	<u>\$ 3,162,230</u>	<u>2,473,863</u>

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

	December 31, 2019	December 31, 2018
Current:		
Open-end mutual fund	<u>\$ 62,541</u>	<u>-</u>
Non-current:		
Privately offered fund	<u>\$ 5,309</u>	<u>-</u>

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

	December 31, 2019	December 31, 2018
Equity instruments at fair value through other comprehensive income :		
Unlisted common shares	<u>\$ 195,216</u>	<u>41,033</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 2019 and 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

(d) Accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	\$ 343,682	616,524
Less: Allowance for impairment	<u>(327)</u>	<u>(2,197)</u>
	<u>\$ 343,355</u>	<u>614,327</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>December 31, 2019</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 343,355	0.0001%	-
More than 180 days past due	<u>327</u>	100%	<u>327</u>
	<u>\$ 343,682</u>		<u>327</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>\$ 616,524</u>		<u>2,197</u>

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

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 2,197	24,560
Impairment loss reversed	-	(1,300)
Write-off	(1,917)	(22,708)
Foreign exchange losses (gain)	<u>47</u>	<u>1,645</u>
Balance at December 31	<u>\$ 327</u>	<u>2,197</u>

(Continued)

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

(e) Inventories

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Raw materials	\$ 404,900	17,249
Work in process	346,282	508,556
Finished goods	<u>11,725</u>	<u>30,114</u>
	<u>\$ 762,907</u>	<u>555,919</u>

For the years ended December 31, 2019 and 2018, the cost of inventories sold, which were included in costs of revenue, amounted to \$3,671,843 and \$3,784,657, respectively, of which the write-downs of inventories to net realizable value amounted to \$105,005 in 2019; the reversal of write-down amounted to \$14,461 due to the disposal of slow-moving inventories in 2018.

(f) Other financial assets—current

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Time deposit (with original maturities of between three months and one year)	\$ 239,840	9,215
Restricted bank deposits	65,093	10,000
Other receivables	<u>13,041</u>	<u>9,466</u>
	<u>\$ 317,974</u>	<u>28,681</u>

(g) Investments accounted for using equity method

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Associates	\$ 41,058	-
Joint ventures	<u>-</u>	<u>25,963</u>
	<u>\$ 41,058</u>	<u>25,963</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>2019</u>	<u>2018</u>
Attributable to the Group:		
Net income (loss)	\$ (46,709)	6,854
Other comprehensive income (loss)	<u>44</u>	<u>(408)</u>
Total comprehensive income (loss)	<u>\$ (46,665)</u>	<u>6,446</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(h) Prepayments for investments

As of December 31, 2018, the Group invested the amounts of \$186,593 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.

(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	<u>(5,417)</u>	<u>73,530</u>
Goodwill		<u>\$ 4,576</u>

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.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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 December 31, 2019, Igistec contributed revenue of \$0 and net loss of \$(105,129) 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 December 31, 2019 would have been \$7,358,441 and \$852,588, respectively.

(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>
Cost:					
Balance at January 1, 2019	\$ 15,343	19,393	8,528	48,455	91,719
Acquisition through business combination	-	-	-	501	501
Additions	145	17,414	8,792	18,806	45,157
Disposals	(16)	(802)	(289)	(1,014)	(2,121)
Effect of exchange rate changes	-	(45)	(59)	(9)	(113)
Balance at December 31, 2019	<u>\$ 15,472</u>	<u>35,960</u>	<u>16,972</u>	<u>66,739</u>	<u>135,143</u>
Balance at January 1, 2018	\$ 22,404	11,343	7,912	38,270	79,929
Additions	1,284	8,290	607	11,041	21,222
Disposals	(8,345)	(240)	-	(886)	(9,471)
Effect of exchange rate changes	-	-	9	30	39
Balance at December 31, 2018	<u>\$ 15,343</u>	<u>19,393</u>	<u>8,528</u>	<u>48,455</u>	<u>91,719</u>
Depreciation:					
Balance at January 1, 2019	\$ 14,113	10,221	4,534	23,414	52,282
Acquisition through business combination	-	-	-	10	10
Depreciation	682	6,557	3,611	11,513	22,363
Disposals	(16)	(802)	(286)	(969)	(2,073)
Effect of exchange rate changes	-	(5)	(25)	2	(28)
Balance at December 31, 2019	<u>\$ 14,779</u>	<u>15,971</u>	<u>7,834</u>	<u>33,970</u>	<u>72,554</u>
Balance at January 1, 2018	\$ 21,882	7,127	2,117	15,045	46,171
Depreciation	576	3,334	2,410	9,225	15,545
Disposals	(8,345)	(240)	-	(875)	(9,460)
Effect of exchange rate changes	-	-	7	19	26
Balance at December 31, 2018	<u>\$ 14,113</u>	<u>10,221</u>	<u>4,534</u>	<u>23,414</u>	<u>52,282</u>
Carrying amounts:					
Balance at December 31, 2019	<u>\$ 693</u>	<u>19,989</u>	<u>9,138</u>	<u>32,769</u>	<u>62,589</u>
Balance at December 31, 2018	<u>\$ 1,230</u>	<u>9,172</u>	<u>3,994</u>	<u>25,041</u>	<u>39,437</u>

(Continued)

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

(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	39,400
Disposals	<u>(13,374)</u>
Balance at December 31, 2019	<u>\$ 140,285</u>
Accumulated depreciation:	
Balance at January 1, 2019	\$ -
Depreciation	38,127
Disposals	<u>(2,781)</u>
Balance at December 31, 2019	<u>\$ 35,346</u>
Carrying amount:	
Balance at December 31, 2019	<u>\$ 104,939</u>

The Group leases office, employee dormitories and other office equipment under operating leases for the year ended December 31, 2018, please refer to note 6(o).

(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	-	-	-	20,070	20,070
Disposals	-	-	-	(842)	(842)
Effect of exchange rate changes	-	-	-	13	13
Balance at December 31, 2019	<u>\$ 111,403</u>	<u>25,714</u>	<u>112,078</u>	<u>73,062</u>	<u>322,257</u>
Balance at January 1, 2018	\$ 106,827	25,714	84,726	14,873	232,140
Additions	-	-	-	38,643	38,643
Balance at December 31, 2018	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>53,516</u>	<u>270,783</u>

(Continued)

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

	<u>Goodwill</u>	<u>Patent</u>	<u>Technology</u>	<u>Computer software</u>	<u>Total</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	-	7,023	13,867	21,936	42,826
Disposals	-	-	-	(163)	(163)
Effect of exchange rate changes	-	-	-	1	1
Balance at December 31, 2019	<u>\$ -</u>	<u>23,348</u>	<u>37,697</u>	<u>37,720</u>	<u>98,765</u>
Balance at January 1, 2018	\$ -	9,302	13,239	8,958	31,499
Amortization	-	7,023	10,591	6,975	24,589
Balance at December 31, 2018	<u>\$ -</u>	<u>16,325</u>	<u>23,830</u>	<u>15,933</u>	<u>56,088</u>
Carrying amount:					
Balance at December 31, 2019	<u>\$ 111,403</u>	<u>2,366</u>	<u>74,381</u>	<u>35,342</u>	<u>223,492</u>
Balance at December 31, 2018	<u>\$ 106,827</u>	<u>9,389</u>	<u>60,896</u>	<u>37,583</u>	<u>214,695</u>

(i) Amortization

The amortization of intangible assets is included in the following line items of the statement of comprehensive income:

	<u>2019</u>	<u>2018</u>
Operating expenses	<u>\$ 42,826</u>	<u>24,589</u>

(ii) Impairment test on goodwill

The carrying amounts of goodwill and the respective cash-generating units (“CGUs”) to which the goodwill was allocated for impairment test purpose were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Biometric authentication IC sensor and its application	<u>\$ 111,403</u>	<u>106,827</u>

At the end of each reporting period, the Group’s goodwill is tested annually for impairment. The recoverable amount of a CGU was determined based on the value in use. As of December 31, 2019 and 2018, no impairment loss was recognized for the biometric authentication IC sensor and its application based on the tested result.

The key assumptions in assessing the value in use were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rates (before tax)	12.87 %	13.05 %
Revenue growth rates	5%~21%	10%~52%

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the Taiwan government in the relevant market, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systemic risk of the specific CGU.

The cash flow projections approved by management were based on future financial budgets, covering a period of 5 years. Cash flows beyond that 5-year period have been extrapolated using the revenue growth rate of 0%.

(m) Short-term borrowings

	December 31, 2019	December 31, 2018
Secured bank loans	\$ <u>1,193,486</u>	<u>961,315</u>
Unused credit facilities	\$ <u>2,095,594</u>	<u>1,244,425</u>
Interest rate	<u>1.06%~1.30%</u>	<u>1.15%~3.04%</u>

(n) Lease liabilities

The Group's lease liabilities were as follows:

	December 31, 2019
Current	\$ <u>37,053</u>
Non-current	\$ <u>70,204</u>

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

The amounts recognized in profit or loss were as follows:

	2019
Interest expenses on lease liabilities	\$ <u>2,359</u>
Expenses relating to short-term leases	\$ <u>4,949</u>

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

	2019
Total cash outflow for leases	\$ <u>42,977</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.

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(o) Operating lease

Non-cancellable operating lease rentals payable was as follows:

	December 31, 2018
Less than one year	\$ 34,255
Between one year and five years	86,138
	\$ 120,393

The Group leases several office spaces, staff dormitory and equipment under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the leases upon maturity. Lease payments are paid based on the terms of the lease contracts.

For the year ended December 31, 2018, rental expenses recognized in profit or loss in respect of operating leases was \$33,187.

(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 years ended December 31, 2019 and 2018, the Group recognized the pension expenses of \$26,017 and \$17,075, respectively, in relation to the defined contribution plans.

(q) Income taxes

(i) Income tax expense

	2019	2018
Current income tax expense		
Current period	\$ 238,113	171,675
Adjustments for prior years	(3,473)	(5,737)
	234,640	165,938
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	(35,142)	20,312
Adjustment in tax rate	-	(8,945)
	(35,142)	11,367
Income tax expense	\$ 199,498	177,305

In 2019 and 2018, there were no income tax expense recognized in other comprehensive income.

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Reconciliation between the expected income tax expense calculated based on the Company's statutory tax rate and the actual income tax expense reported in the consolidated statements of comprehensive income for 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Income before income tax	\$ <u>1,052,201</u>	<u>848,096</u>
Income tax using the Company's statutory tax rate	\$ 210,440	169,619
Adjustment in tax rate	-	(8,945)
Adjustments for prior years	(3,473)	(5,737)
Income tax credit	(21,513)	(14,476)
Change in unrecognized temporary differences	(1,237)	(1,026)
Undistributed earnings additional tax at 10%	-	23,241
Others	<u>15,281</u>	<u>14,629</u>
	<u>\$ 199,498</u>	<u>177,305</u>

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

As of December 31, 2019 and 2018, the temporary differences associated with investments in subsidiaries, joint ventures and associates were not recognized as deferred income tax assets as these temporary differences are not expected to reverse in the foreseeable future by the Group. The related amounts were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Losses in subsidiaries, joint ventures and associates	\$ <u>153,291</u>	<u>154,528</u>

2) Recognized deferred income tax assets and liabilities

Deferred income tax assets:

	<u>Inventory provisions</u>	<u>Unrealized foreign currency exchange loss</u>	<u>Others</u>	<u>Total</u>
Balance at January 1 , 2019	\$ 34,527	-	5,834	40,361
Recognized in profit or loss	<u>21,001</u>	<u>12,336</u>	<u>842</u>	<u>34,179</u>
Balance at December 31, 2019	<u>\$ 55,528</u>	<u>12,336</u>	<u>6,676</u>	<u>74,540</u>
Balance at January 1 , 2018	\$ 31,806	-	18,884	50,690
Recognized in profit or loss	<u>2,721</u>	<u>-</u>	<u>(13,050)</u>	<u>(10,329)</u>
Balance at December 31, 2018	<u>\$ 34,527</u>	<u>-</u>	<u>5,834</u>	<u>40,361</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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Deferred income tax liabilities:

	Unrealized foreign currency exchange gain	Others	Total
Balance at January 1, 2019	\$ 1,038	-	1,038
Recognized in profit or loss	<u>(1,038)</u>	<u>75</u>	<u>(963)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>75</u>	<u>75</u>
Balance at January 1, 2018	\$ -	-	-
Recognized in profit or loss	<u>1,038</u>	<u>-</u>	<u>1,038</u>
Balance at December 31, 2018	<u>\$ 1,038</u>	<u>-</u>	<u>1,038</u>

(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

(i) Common stock

As of December 31, 2019 and 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 71,265 thousand shares and 70,974 thousand shares, respectively, were issued and outstanding.

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

	Ordinary shares	
	2019	2018
Balance at January 1	68,111	70,036
Exercise of employee stock options	294	490
Vested restricted stock issued to employees	181	185
Purchase of treasury stock	-	(2,600)
Treasury stock transferred to employees	<u>300</u>	<u>-</u>
Balance at December 31	<u>68,886</u>	<u>68,111</u>

As of December 31, 2019 and 2018, the related registration process had been completed except for 123 thousand shares and 93 thousand shares for issuance of new shares for employee stock options, which were classified as common stock subscribed, respectively.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(ii) Capital surplus

	December 31, 2019	December 31, 2018
Paid-in capital in excess of par value	\$ 980,974	881,352
Compensation cost of employee stock options	1,012	23,757
Restricted stock issued to employees	17,186	58,050
Treasury share transactions	<u>40,981</u>	<u>-</u>
	<u>\$ 1,040,153</u>	<u>963,159</u>

Pursuant to the Company Act, any realized capital surplus is initially used to cover any accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends, based on the original shareholding ratio or distributed by cash, according to a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations received by the Company. In accordance with the “Regulations Governing the Offering and Issuance of Securities by Securities Issuers”, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

(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.

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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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>

On March 17, 2020, the Company's Board of Directors resolved to appropriate the 2019 earnings. These earnings were appropriated as follows:

	<u>2019</u>	
	<u>Dividends per share (NT\$)</u>	<u>Amount</u>
Dividends distributed to ordinary shareholders :		
Cash	\$ 9.00	<u>623,536</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 cannot be collateralized and do not bear any shareholder rights prior to being sold to third parties.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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	-	2,600
Transfer	<u>(300)</u>	<u>-</u>
Balance at December 31	<u><u>2,300</u></u>	<u><u>2,600</u></u>

(v) Other equity

	<u>Exchange differences on translation of foreign operations</u>	<u>Deferred compensation cost arising from issuance of restricted stock</u>	<u>Unrealized gains (losses) from financial assets at fair value through other comprehensive income</u>
Balance at January 1, 2019	\$ 3,935	(30,647)	(52,802)
Foreign exchange difference arising from translation of foreign operations:			
The Group	(1,618)	-	-
Joint ventures and associates	44	-	-
Deferred compensation cost	-	25,502	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>(31,022)</u>
Balance at December 31, 2019	<u><u>\$ 2,361</u></u>	<u><u>(5,145)</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	1,105	-	-
Joint ventures	(408)	-	-
Deferred compensation cost	-	67,087	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>(53,977)</u>
Balance at December 31, 2018	<u><u>\$ 3,935</u></u>	<u><u>(30,647)</u></u>	<u><u>(52,802)</u></u>

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

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

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ -	-
Acquisition of subsidiary	18,609	-
Equity attributable to non-controlling interest:		
Net loss	<u>(9,978)</u>	<u>-</u>
Balance at December 31	<u>\$ 8,631</u>	<u>-</u>

(s) Share-based payment

(i) Employee stock options

A summary of the Group's stock option plans and related information is as follows:

	2015	2014
Grant date	2015	2014
Number of units granted (note 1)	408 (2014 plan)	1,995 (403 from 2013 plan and 1,592 from 2014 plan)
Contract term	5 years	5 years
Qualified employees	Employees of the Company conforming to certain requirements	Employees of the Company conforming to certain requirements
Vesting conditions	Note 2	Note 2

Note 1: Each unit of stock options is eligible to subscribe for one thousand common shares.

Note 2: According to 2014 and 2013 stock option plans, employees are entitled to receive 50% and 100% of the stock options in the second and third year, respectively, of their service.

Information in employee stock option plans were as follows (Amounts in New Taiwan dollars):

	<u>2019</u>		<u>2018</u>	
	<u>Weighted- average exercise price</u>	<u>Number of shares</u>	<u>Weighted- average exercise price</u>	<u>Number of shares</u>
Outstanding, beginning of year	\$ 110.60	498,000	112.76	643,000
Exercised	115.09	(323,500)	119.99	(141,000)
Forfeited	99.32	(156,000)	127.18	(4,000)
Outstanding, end of year	127.18	<u>18,500</u>	110.60	<u>498,000</u>
Exercisable, end of year	127.18	<u>18,500</u>	110.60	<u>498,000</u>

December 31, 2019

<u>Year of grant</u>	<u>Number of shares outstanding</u>	<u>Weighted-average remaining contractual years</u>	<u>Weighted-average exercise price</u>	<u>Number of shares exercisable</u>
2015	<u>18,500</u>	0.84	\$ 127.18	<u>18,500</u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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

(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.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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2) Movements in the number of restricted shares of stock (in thousands) was as follows:

	<u>2019</u>	<u>2018</u>
Balance at January 1	563	572
Forfeited	<u>(6)</u>	<u>(9)</u>
Balance at December 31	557	563
Accumulated vested shares	<u>(484)</u>	<u>(302)</u>
Unvested shares	<u><u>73</u></u>	<u><u>261</u></u>

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

In 2019, the Company transferred 300 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\$235~240.5 per share.

(iv) Expenses resulted from share-based payments

	<u>2019</u>	<u>2018</u>
Treasury stock transferred to employees	\$ 41,071	-
Restricted stock	27,490	69,830
Employee stock options	<u>-</u>	<u>2,810</u>
	<u><u>\$ 68,561</u></u>	<u><u>72,640</u></u>

(t) Earnings per share ("EPS")

(i) Basic earnings per share

	<u>2019</u>	<u>2018</u>
Net income attributable to the shareholders of the Company	\$ <u>862,681</u>	<u>670,791</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>68,443</u>	<u>69,710</u>
Basic earnings per share (in New Taiwan dollars)	<u><u>\$ 12.60</u></u>	<u><u>9.62</u></u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(ii) Diluted earnings per share

	<u>2019</u>	<u>2018</u>
Net income attributable to the shareholders of the Company	\$ <u>862,681</u>	<u>670,791</u>
Weighted-average number of ordinary shares outstanding (in thousands)	68,443	69,710
Effect of diluted potential ordinary shares:		
Stock options	201	91
Employees compensation	395	271
Restricted stock	<u>219</u>	<u>218</u>
Weighted-average shares of ordinary shares outstanding (in thousands) (including effect of dilutive potential ordinary shares)	<u>69,258</u>	<u>70,290</u>
Diluted earnings per share (in New Taiwan dollars)	<u>\$ <u>12.46</u></u>	<u>9.54</u>

(u) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2019</u>	<u>2018</u>
Primary geographical markets:		
Taiwan	6,250	9,551
Asia	<u>7,352,191</u>	<u>5,899,782</u>
	<u>\$ <u>7,358,441</u></u>	<u>5,909,333</u>
Major products/ services line:		
Biometric authentication IC sensor and its application	7,354,659	5,903,424
Data security protection and its application	3,722	4,723
Non-recurring engineering service revenue	<u>60</u>	<u>1,186</u>
	<u>7,358,441</u>	<u>5,909,333</u>

(ii) Contract balances

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Accounts receivable	\$ 343,682	616,524	753,849
Less: Allowance for impairment	<u>(327)</u>	<u>(2,197)</u>	<u>(24,560)</u>
Total	<u>\$ <u>343,355</u></u>	<u>614,327</u>	<u>729,289</u>

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

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

(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.

For the years ended December 31, 2019 and 2018, the Company accrued its remuneration to employees amounting to \$83,367 and \$46,308, respectively, and its remuneration to directors amounting to \$11,568 and \$8,972, respectively, which were calculated based on the net profits before tax of each period (excluding the remuneration to employees and directors), multiplied by the distribution ratio of remuneration to employees and directors under the Company's articles of incorporation, and recognized as operating expenses. The aforementioned accrued remunerations to employees and directors were same as the amounts approved by the Board of Directors. The related information would be available at the Market Observation Post System website.

(w) Non-operating income and loss

(i) Other income

	<u>2019</u>	<u>2018</u>
Interest income	\$ 80,063	41,767
Others	<u>10,316</u>	<u>2,801</u>
	<u>\$ 90,379</u>	<u>44,568</u>

(ii) Other gains and losses

	<u>2019</u>	<u>2018</u>
Foreign exchange gains (losses), net	(72,462)	84,481
Net loss on financial assets at fair value through profit or loss	(415)	(755)
Others	<u>(1,912)</u>	<u>(3,312)</u>
	<u>\$ (74,789)</u>	<u>80,414</u>

(iii) Finance costs

	<u>2019</u>	<u>2018</u>
Interest expense on bank loans	\$ (16,973)	(9,917)
Lease liabilities	<u>(2,359)</u>	<u>-</u>
	<u>\$ (19,332)</u>	<u>(9,917)</u>

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

(x) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Financial assets at fair value through profit or loss – current and non-current	\$ <u>67,850</u>	<u>-</u>
Financial assets at fair value through other comprehensive income	<u>195,216</u>	<u>41,033</u>
Financial assets at amortized cost:		
Cash and cash equivalents	3,162,230	2,473,863
Accounts receivable, net	343,355	614,327
Other financial assets – current and non-current	318,419	29,153
Refundable deposits	<u>10,551</u>	<u>9,581</u>
Subtotal	<u>3,834,555</u>	<u>3,126,924</u>
Total	<u>\$ 4,097,621</u>	<u>3,167,957</u>

2) Financial liabilities

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Financial liabilities at amortized cost:		
Short-term borrowings	\$ 1,193,486	961,315
Notes and accounts payable	561,738	396,474
Accrued expenses	352,301	252,916
Lease liabilities – current and non-current	<u>107,257</u>	<u>-</u>
	<u>\$ 2,214,782</u>	<u>1,610,705</u>

(ii) 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.

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- 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).

		December 31, 2019				
		Carrying Amount	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss-current:						
Open-end mutual fund	\$	62,541	62,541	-	-	62,541
Financial assets at fair value through profit or loss—non-current:						
Privately offered fund		5,309	-	-	5,309	5,309
Financial assets at fair value through other comprehensive income—non-current:						
Unlisted common shares		195,216	-	-	195,216	195,216
	\$	<u>263,066</u>	<u>62,541</u>	<u>-</u>	<u>200,525</u>	<u>263,066</u>
		December 31, 2018				
		Carrying Amount	Fair Value			
			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

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.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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.

4) Quantified information of significant unobservable inputs

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Equity investments measured at fair value through other comprehensive income	Comparable company valuation	Discount for lack of marketability (10%~30%)	The estimated fair value would decrease if the discount for lack of marketability was higher
		Price-Book ratio (3.87~5.80 and 1.87~3.21 on December 31, 2019 and 2018, respectively)	The estimated fair value would increase if the Price-Book ratio was higher

5) Fair value measurements in Level 3— sensitivity analysis of reasonably possible alternative assumptions

The Group's measurement on the fair value of financial instruments is reasonable, but it may change if different valuation models or inputs are used. For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on other comprehensive income:

	<u>Input</u>	<u>Change in assumptions</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
December 31, 2019				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,522	(1,522)
December 31, 2018				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	405	(405)

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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The favorable and unfavorable effects represent the changes in fair value, which is based on a variety of unobservable inputs calculated using a valuation technique. If the fair value of a financial instrument is subject to more than one inputs, the analysis above reflects only the effects of changes in a single input and does not include the interrelationships with another input.

(iii) Transfer between fair value levels

There are no transfers between fair value levels for the years ended December 31, 2019 and 2018.

(iv) Movement in financial assets included Level 3 fair values hierarchy were as follows:

	2019		2018	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Opening balance	\$ -	41,033	-	95,010
Total gains or losses:				
Recognized in profit and loss	(975)	-	-	-
Recognized in other comprehensive income	-	(31,022)	-	(53,977)
Additions	<u>6,284</u>	<u>185,205</u>	<u>-</u>	<u>-</u>
Ending Balance	<u>\$ 5,309</u>	<u>195,216</u>	<u>-</u>	<u>41,033</u>

(y) Financial risk management

The Group is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks and the Group's policies and procedures to measure and manage those risks as well as the quantitative information below.

The Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

The Group's management monitors and reviews the financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, accounts receivable, and other financial assets. The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets.

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations and financial institutions with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

The Group has established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. As of December 31, 2019 and 2018, 78% and 81%, respectively, of accounts receivable were concentrated on three customers, thus, credit risk is significantly centralized.

(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 December 31, 2019 and 2018, the Group had unused credit facilities of \$2,095,594 and \$1,244,425, respectively.

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

	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>
December 31, 2019			
Short-term borrowings carrying floating interest rates	\$ 1,194,203	1,194,203	-
Notes and accounts payable	561,738	561,738	-
Accrued expenses	352,301	352,301	-
Lease liabilities—current and non-current	<u>110,617</u>	<u>37,395</u>	<u>73,222</u>
	<u>\$ 2,218,859</u>	<u>2,145,637</u>	<u>73,222</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>

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

(Continued)

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(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, that will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and bank loans that are denominated in a currency other than the functional currency. 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.

a) Exposure to foreign currency risk

The carrying amounts of the Group's significant financial assets and liabilities denominated in a currency, other than the respective functional currencies of Group entities, was as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

	December 31, 2019			December 31, 2018		
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 121,436	29.980	3,640,651	96,587	30.715	2,966,670
<u>Non-Monetary items</u>						
USD	8,263	29.980	247,725	1,000	30.715	30,715
<u>Financial liabilities</u>						
USD	28,429	29.980	852,301	18,284	30.715	561,578

b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of cash and cash equivalents, accounts receivables, notes and accounts payable and bank loans that are denominated in a currency other than the respective functional currencies of Group entities. As of December 31, 2019 and 2018, a 1% depreciation of the TWD against the USD would have increased the Group's income before tax for the years ended December 31, 2019 and 2018 by \$27,884, and \$24,050, respectively. This analysis assumes that all other variables remain constant and is performed on the same basis for the current and prior periods.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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c) Gains or losses on monetary items

Information related to gains and losses (included unrealized and realized) is as follows:

	2019		2018	
	Foreign exchange gains (losses)	Average exchange rate	Foreign exchange gains (losses)	Average exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (104,284)	30.911	91,196	30.175
<u>Financial liabilities</u>				
USD:TWD	30,709	30.911	(8,613)	30.175

2) Interest rate risk

The Group's short-term borrowings carried floating interest rates. To manage the interest rate risk, the Group periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Group also strengthens the management of working capital to adjust the composition of working capital as well as the risk arising from fluctuation of interest rates.

If interest rates had been 100 basis points (1%) higher/lower with all other variables held constant, the pre-tax income/loss for the years ended December 31, 2019 and 2018 would have been \$11,935 and \$9,613, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

3) Other market price risk

The Group holds open-ended fund, where most of its tagets are currency and bonds. The Group anticipates that there is no significant market risk related to its investments.

The Group has strategic investments in unlisted common shares, which the Group does not actively participate in trading. Assuming a hypothetical increase or decrease of 5% in equity prices of the equity investments at each reporting date, the other comprehensive income for the years ended December 31, 2019 and 2018 would have increased or decreased by \$9,761 and \$2,052, respectively.

(z) Capital management

In consideration of industry dynamics and future development, as well as external environment factors, the Group maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(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:

	January 1, 2019	Effect of retrospective adoption of IFRS 16	Cash flows	Non-cash changes Additions to lease liabilities	December 31, 2019
Short-term borrowings	\$ 961,315	-	232,171	-	1,193,486
Lease liabilities	-	114,259	(35,669)	28,667	107,257
Total amount of liabilities from financing activities	<u>\$ 961,315</u>	<u>114,259</u>	<u>196,502</u>	<u>28,667</u>	<u>1,300,743</u>

	January 1, 2018	Cash flows	December 31, 2018
Short-term borrowings	<u>\$ 280,519</u>	<u>680,796</u>	<u>961,315</u>

7. Related-party transactions

(a) Names and relationship with related parties

The following are entities that have had transactions with related party during the reporting period.

Name of related party	Relationship with the Group
Tyrafos Technologies Co., Limited, Taiwan Branch	Branch of the joint venture
Yinscorp Ltd.	Subsidiary of the joint venture

(b) Significant transactions with related parties

(i) Research and development expenses

The Group has authorized its related parties to assist and develop its optical finger print sensor technology. The operating expenses related to the R&D services were as follows:

	2019	2018
Joint ventures:		
Tyrafos Technologies Co., Limited, Taiwan Branch	\$ -	58,493
Yinscorp Ltd.	-	24,952
	<u>\$ -</u>	<u>83,445</u>

(Continued)

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

(c) Compensation for key management personnel

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 151,198	94,810
Post-employment benefits	986	765
Share-based payments	<u>41,187</u>	<u>43,101</u>
	<u>\$ 193,371</u>	<u>138,676</u>

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

8. Pledged assets

<u>Assets</u>	<u>Pledged to secure</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other financial assets—current (time deposits)	Deposit for purchase fulfillment	\$ 10,000	10,000
Other financial assets—current (bank deposits)	Performance guarantee	55,093	-
Other financial assets—non-current (time deposits)	Performance guarantee	<u>445</u>	<u>472</u>
		<u>\$ 65,538</u>	<u>10,472</u>

9. Significant commitments and contingencies

- (a) As of December 31, 2019 and 2018, the Group had issued promissory notes amounting to \$3,642,255 and \$2,205,740, respectively, as collaterals for the Group to obtain credit facilities from financial institutions and subsidy R&D program from government.
- (b) 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 submitted a request of patents invalidity to the China National Intellectual Property Administration (CNIPA). In February 2020, the Company received patent invalidation decision from CNIPA, which the patent asserted in patent infringement litigation against the Company was declared invalid by CNIPA. Therefore, the patent infringement lawsuit thus becomes baseless lawsuit. The Company has engaged attorney to take further 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.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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12. Others

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

By item	By function	2019			2018		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
Salaries		-	868,896	868,896	-	547,172	547,172
Labor and health insurances		-	34,798	34,798	-	21,348	21,348
Pension		-	26,017	26,017	-	17,075	17,075
Other employees' benefits		-	35,472	35,472	-	25,466	25,466
Depreciation		2,773	57,717	60,490	1,983	13,562	15,545
Amortization		-	42,826	42,826	-	24,589	24,589

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 years ended December 31, 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				Maximum ownership during 2019		Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares (thousands)	Percentage of ownership (%)	
The Company	Nomura Global Financial Bond Fund	-	Financial assets at fair value through profit or loss—current	98	32,237	-	32,237	98	-	
The Company	Nomura NN (L) Asian Debt (Hard Currency)	-	Financial assets at fair value through profit or loss—current	1	30,304	-	30,304	1	-	
The Company	Gingy Technology Inc.	-	Financial assets at fair value through other comprehensive income	859	10,011	3.18 %	10,011	859	3.51 %	
The Company	THEIA LIMITED	-	Financial assets at fair value through other comprehensive income	100,000	-	11.20 %	-	100,000	11.20 %	
The Company	Integrated Digital Technologies, Inc.	-	Financial assets at fair value through other comprehensive income	4,000	-	13.96 %	-	4,000	13.96 %	
The Company	AIStorm, Inc.	-	Financial assets at fair value through other comprehensive income	4,000	123,065	17.22 %	123,065	4,000	17.45 %	
The Company	MEMS DRIVE INC.	-	Financial assets at fair value through other comprehensive income	188	62,140	3.25 %	62,140	188	3.37 %	
The Company	Vertex Growth (SG) LP	-	Financial assets at fair value through profit or loss—non-current	-	5,309	-	5,309	-	-	

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- (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 years ended December 31, 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 December 31, 2019			Maximum Ownership during 2019		Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				December 31, 2019	December 31, 2018	Shares (in thousands)	Percentage of Ownership	Carrying Value	Shares (in thousands)	Percentage of Ownership			
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	669,233	678,340	25,546	100.00 %	-	25,848	100.00 %	(198)	(198)	Parent/ subsidiary
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	109,279	83,213	7,680	100.00 %	13,768	7,680	100.00 %	(12,490)	(12,490)	Parent/ subsidiary
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	4,298	1,000	100.00 %	(9,916)	(9,916)	Parent/ subsidiary
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	18,233	18,233	20	100.00 %	24,382	20	100.00 %	6,964	6,964	Parent/ subsidiary
The Company	Tyrafos Technologies Co., Limited	Hong Kong	Technology development	19,517	19,517	5,265	65.00 %	-	5,265	65.00 %	(48,002)	(26,309)	Joint venture
The Company	Igistec Co., Ltd.	Taiwan	Technology development	59,497	-	16,527	74.69 %	30,053	16,527	74.69 %	(36,261)	(29,444)	Parent/ subsidiary
The Company	Sirius Wireless Pte. Ltd.	Singapore	Technology development	61,760	-	40,080	50.05 %	41,058	4,080	50.05 %	(40,932)	(20,400)	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.

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

14. Segment information

(a) General information

The Group is mainly engaged in the research and development, design and sale of 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. In 2019 and 2018, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.

(b) Product information

Revenues from external customers are detailed below:

Products and services	2019	2018
Biometric authentication IC sensor and its application	\$ 7,354,659	5,903,424
Data security and its application	3,722	4,723
Non-recurring engineering service revenue	<u>60</u>	<u>1,186</u>
	<u><u>\$ 7,358,441</u></u>	<u><u>5,909,333</u></u>

(c) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of the customers, and segment assets are based on the geographical location of the assets.

Region	2019	2018
Revenues from external customers are detailed below:		
Asia	\$ 7,352,191	5,899,782
Taiwan	<u>6,250</u>	<u>9,551</u>
	<u><u>\$ 7,358,441</u></u>	<u><u>5,909,333</u></u>
	December 31,	December 31,
	2019	2018
Non-current assets:		
Taiwan	\$ 382,548	251,437
Others	<u>8,472</u>	<u>2,695</u>
	<u><u>\$ 391,020</u></u>	<u><u>254,132</u></u>

Non-current assets include property, plant and equipment, right-of-use assets and intangible assets, and do not include financial instruments and deferred income tax assets.

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Notes to the Consolidated Financial Statements

(d) Major customer information

	<u>2019</u>	<u>2018</u>
Customer A	\$ 2,881,510	381,566
Customer B	1,702,507	506,970
Customer C	1,471,249	2,114,610
Customer D	834,823	710,856
Customer E	<u>104,617</u>	<u>2,069,818</u>
	<u>\$ 6,994,706</u>	<u>5,783,820</u>