

EGIS TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Financial Statements**

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2020 and 2019**

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

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Independent Auditors' Review Report

To the Board of Directors of Egis Technology Inc.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Egis Technology Inc. and its subsidiaries as of June 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and six months then ended as well as the changes in equity and cash flows for the six months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Egis Technology Inc. and its subsidiaries as of June 30, 2020 and 2019, and of its consolidated financial performance for the three months and six months then ended as well as its consolidated cash flows for the six months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.



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

KPMG

Taipei, Taiwan (Republic of China)
August 12, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2020 and 2019

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Balance Sheets

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

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2020		December 31, 2019		June 30, 2019		June 30, 2020		December 31, 2019		June 30, 2019			
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
Assets														
Current assets:														
1100 Cash and cash equivalents (notes 6(a) and 8)	\$	2,161,051	33	3,162,230	57	2,492,038	48	1,378,760	21	1,193,486	22	968,042	18	
1110 Financial assets at fair value through profit or loss – current (notes 6(b) and 13)		-	-	62,541	1	32,411	1	230,952	4	561,738	10	573,731	11	
1170 Accounts receivable, net (notes 6(d)(t))		652,705	10	343,355	6	1,231,554	23	623,536	9	-	-	554,844	11	
1210 Other receivables from related parties (note 7)		5,969	-	-	-	-	-	107,186	2	166,761	3	102,834	2	
130X Inventories (note 6(e))		548,579	8	762,907	14	265,867	5	24,621	-	37,053	1	38,747	1	
1410 Prepaid expenses and other current assets		128,474	2	160,921	3	85,676	2	-	-	-	-	-	-	
1476 Other financial assets – current (notes 6(f) and 8)		781,356	12	317,974	6	439,824	8	541,198	8	687,074	12	726,744	14	
Total current assets		<u>4,278,134</u>	<u>65</u>	<u>4,809,928</u>	<u>87</u>	<u>4,547,370</u>	<u>87</u>	<u>2,906,253</u>	<u>44</u>	<u>2,646,112</u>	<u>48</u>	<u>2,964,942</u>	<u>57</u>	
Non-current assets:														
1510 Non-current financial assets at fair value through profit or loss (notes 6(b) and 13)		9,534	-	5,309	-	-	-	990,000	16	-	-	-	-	
1517 Non-current financial assets at fair value through other comprehensive income (notes 6(e) and 13)		1,795,050	28	195,216	4	195,216	4	27,007	-	75	-	1,038	-	
1550 Investments accounted for using equity method (notes 6(g) and 13)		32,652	1	41,058	1	59,141	1	1,017,082	16	70,204	1	76,311	1	
1600 Property, plant and equipment (note 6(f))		78,173	1	62,589	1	49,230	1	-	-	-	-	-	-	
1755 Right-of-use assets (note 6(j))		50,502	1	104,939	2	113,626	2	-	-	1,225	-	-	-	
1780 Intangible assets (notes 6(g)(k))		209,626	3	223,492	4	231,696	4	1,059,185	16	1,040,153	19	974,534	19	
1840 Deferred income tax assets		74,540	1	74,540	1	40,361	1	224,069	3	137,801	2	137,801	3	
1920 Refundable deposits		10,422	-	10,551	-	10,825	-	81,463	2	48,867	1	48,867	1	
1980 Other financial assets – non-current (note 8)		423	-	445	-	461	-	859,792	13	1,197,715	22	705,075	13	
Total non-current assets		<u>2,260,922</u>	<u>35</u>	<u>718,139</u>	<u>13</u>	<u>700,556</u>	<u>13</u>	<u>713,788</u>	<u>11</u>	<u>712,653</u>	<u>13</u>	<u>711,608</u>	<u>13</u>	
Equity (notes 6(q)(r)):														
Common stock														
Common stock subscribed														
Capital surplus														
Retained earnings:														
Legal reserve														
Special reserve														
Unappropriated earnings														
Other equity interest:														
Exchange differences on translation of foreign financial statements	3411													
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	3420													
Deferred compensation cost arising from issuance of restricted stock	3491													
Treasury stock	3500													
Equity attributable to shareholders of the Company														
Non-controlling interests	36XX													
Total equity														
Total liabilities and equity														
		<u>\$</u>	<u>6,539,056</u>	<u>100</u>	<u>5,528,067</u>	<u>100</u>	<u>5,247,926</u>	<u>100</u>	<u>6,539,056</u>	<u>100</u>	<u>5,528,067</u>	<u>100</u>	<u>6,539,056</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

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

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

	For the three months ended June 30				For the six months ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
4000 Revenue (note 6(t))	\$ 1,515,098	100	1,898,529	100	3,173,457	100	3,291,648	100
5000 Costs of revenue (notes 6(e)(i) and 12)	(839,000)	(55)	(1,175,578)	(62)	(1,729,939)	(55)	(1,993,451)	(61)
Gross profit	676,098	45	722,951	38	1,443,518	45	1,298,197	39
Operating expenses (notes 6(d)(i)(j)(k)(m)(o)(r)(u), 7 and 12):								
6100 Selling expenses	(64,694)	(5)	(66,272)	(3)	(136,139)	(4)	(119,979)	(4)
6200 Administrative expenses	(64,548)	(4)	(82,477)	(4)	(165,882)	(5)	(148,729)	(4)
6300 Research and development expenses	(305,149)	(20)	(340,691)	(18)	(628,259)	(20)	(641,335)	(19)
Total operating expenses	(434,391)	(29)	(489,440)	(25)	(930,280)	(29)	(910,043)	(27)
Operating income	241,707	16	233,511	13	513,238	16	388,154	12
Non-operating income and loss:								
7100 Interest income (notes 6(v) and 7)	11,725	1	21,332	1	26,910	1	39,134	1
7010 Other income (note 6(v))	1,390	-	2,554	-	3,198	-	2,865	-
7020 Other gains and losses, net (note 6(v))	(71,231)	(5)	31,169	2	(48,978)	(2)	44,147	1
7050 Finance costs (notes 6(n)(v))	(4,193)	-	(4,495)	-	(10,377)	-	(8,673)	-
7060 Share of profits of associates and joint ventures accounted for using the equity method (notes 6(g) and 13)	(4,345)	-	(14,970)	(1)	(8,160)	-	(29,058)	(1)
Total non-operating income and loss	(66,654)	(4)	35,590	2	(37,407)	(1)	48,415	1
Net income before tax	175,053	12	269,101	15	475,831	15	436,569	13
7950 Less: Income tax expenses (note 6(p))	(5,431)	(1)	(41,415)	(2)	(72,472)	(2)	(82,206)	(2)
Net income	169,622	11	227,686	13	403,359	13	354,363	11
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(q)(w))	8,597	1	(30,245)	(2)	(16,014)	(1)	(31,022)	(1)
8349 Income tax related to items that will not be reclassified to profit or loss	-	-	-	-	-	-	-	-
	8,597	1	(30,245)	(2)	(16,014)	(1)	(31,022)	(1)
8360 Items that may be reclassified subsequently to profit or loss:								
8361 Exchange differences on translation of foreign operations (note 6(q))	(305)	-	296	-	(1,316)	-	(36)	-
8370 Accounted for using the equity method, components of other comprehensive income that will be reclassified to profit or loss (note 6(g)(q))	(175)	-	465	-	(246)	-	476	-
8399 Income tax related to items that may be reclassified to profit or loss	(480)	-	761	-	(1,562)	-	440	-
Other comprehensive income (loss), net	8,117	1	(29,484)	(2)	(17,576)	(1)	(30,582)	(1)
Comprehensive income	\$ 177,739	12	198,202	11	385,783	12	323,781	10
Net income attributable to:								
8610 Shareholders of the Company	\$ 169,938	11	236,373	13	404,477	13	370,041	11
8620 Non-controlling interests	(316)	-	(8,687)	-	(1,118)	-	(15,678)	-
	\$ 169,622	11	227,686	13	403,359	13	354,363	11
Total comprehensive income attributable to:								
8710 Shareholders of the Company	\$ 178,055	12	206,889	11	386,901	12	339,459	10
8720 Non-controlling interests	(316)	-	(8,687)	-	(1,118)	-	(15,678)	-
	\$ 177,739	12	198,202	11	385,783	12	323,781	10
Earnings per share (in New Taiwan Dollars) (note 6(s)) :								
9750 Basic earnings per share	\$ 2.46		3.46		5.85		5.42	
9850 Diluted earnings per share	\$ 2.45		3.43		5.81		5.37	

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Attributable to shareholders of the Company										Total equity		
	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		Total	Non-controlling interests
Balance at January 1, 2019	\$ 709,743	930	963,159	70,722	-	1,005,824	3,935	(52,802)	(30,647)	(278,740)	2,392,124	-	2,392,124
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	-	67,079	-	(67,079)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	48,867	(48,867)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	48,867	(554,844)	-	-	-	-	(554,844)	-	(554,844)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	18,609	18,609
Issuance of common stock from exercise of employee stock options	1,895	(930)	11,308	-	-	-	-	-	-	-	12,273	-	12,273
Compensation cost arising from restricted shares of stock issued to employees	-	-	37	-	-	-	-	-	13,655	-	13,692	-	13,692
Retirement of restricted shares of stock issued to employees	(30)	-	-	-	-	-	-	-	-	-	-	-	-
Net income in 2019	-	-	-	-	-	370,041	-	-	-	-	370,041	(15,678)	354,363
Other comprehensive income in 2019	-	-	-	-	-	-	440	(31,022)	-	-	(30,582)	-	(30,582)
Total comprehensive income in 2019	-	-	-	-	-	370,041	440	(31,022)	-	-	339,459	(15,678)	323,781
Balance at June 30, 2019	\$ 711,608	-	974,834	137,801	48,867	705,075	4,375	(83,824)	(16,992)	(278,740)	2,202,704	2,931	2,205,635
Balance at January 1, 2020	\$ 712,653	1,225	1,040,153	137,801	48,867	1,197,715	2,361	(83,824)	(5,145)	(248,761)	2,803,045	8,631	2,811,676
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	-	86,268	-	(86,268)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	32,596	(32,596)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	32,596	(623,536)	-	-	-	-	(623,536)	-	(623,536)
Treasury stock transferred to employees	-	-	-	-	-	-	-	-	-	19,986	19,926	-	19,926
Issuance of common stock from exercise of employee stock options	1,225	(1,225)	-	-	-	-	-	-	-	-	-	-	-
Compensation cost of employee stock options	-	-	19,414	-	-	-	-	-	-	-	19,414	-	19,414
Compensation cost arising from restricted shares of stock issued to employees	-	-	(412)	-	-	-	-	-	2,870	-	2,458	-	2,458
Retirement of restricted shares of stock issued to employees	(90)	-	90	-	-	404,477	-	-	-	-	404,477	(1,118)	403,359
Net income in 2020	-	-	-	-	-	-	(1,562)	(16,014)	-	-	(17,576)	-	(17,576)
Other comprehensive income in 2020	-	-	-	-	-	-	(1,562)	(16,014)	-	-	386,901	(1,118)	385,783
Total comprehensive income in 2020	-	-	-	-	-	859,792	799	(99,838)	(2,275)	(228,775)	2,608,208	7,513	2,615,721
Balance at June 30, 2020	\$ 713,788	-	1,059,185	224,069	81,463	859,792	799	(99,838)	(2,275)	(228,775)	2,608,208	7,513	2,615,721

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash flows from operating activities:		
Income before income taxes	\$ 475,831	436,569
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation	36,342	28,393
Amortization	20,153	20,808
Expected credit gain	(330)	-
Net loss (gain) on financial assets at fair value through profit or loss	7,840	(1,572)
Interest expense	10,377	8,673
Interest income	(26,910)	(39,134)
Share-based payments	21,872	13,692
Share of loss of associates and joint ventures accounted for using the equity method	8,160	29,058
Gain arising from lease modifications	(1,744)	-
Total adjustments to reconcile profit	<u>75,760</u>	<u>59,918</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(308,950)	(617,227)
Other receivables from related parties	(5,969)	-
Inventories	214,328	290,052
Prepayments and other current assets	35,287	(2,599)
Total changes in operating assets	<u>(65,304)</u>	<u>(329,774)</u>
Changes in operating liabilities:		
Notes and accounts payable	(330,786)	177,257
Accrued expenses and other current liabilities	(144,585)	271,284
Total changes in operating liabilities	<u>(475,371)</u>	<u>448,541</u>
Total changes in operating assets and liabilities	<u>(540,675)</u>	<u>118,767</u>
Cash provided by operations	10,916	615,254
Interest received	27,014	34,450
Interest paid	(10,563)	(8,389)
Income taxes paid	(136,134)	(96,388)
Net cash provided by (used in) operating activities	<u>(108,767)</u>	<u>544,927</u>

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(1,614,238)	(62,140)
Acquisition of financial assets at fair value through profit or loss	(80,114)	(30,839)
Proceeds from disposal of financial assets at fair value through profit or loss	130,590	-
Acquisition of investments accounted for using the equity method	-	(43,232)
Net cash flows from acquisition of subsidiaries	(1,538)	34,034
Acquisition of property, plant and equipment	(32,450)	(13,463)
Acquisition of intangible assets	(6,287)	(5,580)
Increase in other financial assets	(463,464)	(406,448)
Decrease (increase) in refundable deposits	129	(702)
Net cash used in investing activities	<u>(2,067,372)</u>	<u>(528,370)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	5,846,033	2,431,338
Repayments of short-term borrowings	(5,660,759)	(2,424,611)
Proceeds from long-term debt	990,000	-
Payment of lease liabilities	(18,998)	(17,399)
Proceeds from exercise of employee stock options	-	12,273
Treasury stock transferred to employees	19,926	-
Net cash provided by financing activities	<u>1,176,202</u>	<u>1,601</u>
Effects of foreign exchange rate changes	<u>(1,242)</u>	<u>17</u>
Net increase (decrease) in cash and cash equivalents	(1,001,179)	18,175
Cash and cash equivalents at beginning of the period	<u>3,162,230</u>	<u>2,473,863</u>
Cash and cash equivalents at end of the period	<u>\$ 2,161,051</u>	<u>2,492,038</u>

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and 2019

(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 August 12, 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, 2020.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 23, 2022	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

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

4. Summary of significant accounting policies

(a) Statement of compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statements for the year ended December 31, 2019. Please refer to note 4 of the consolidated financial statements for the year ended December 31, 2019 for the related information.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(b) Basis of consolidation

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

Name of Investor	Name of Subsidiary	Principal Activity	Shareholding		
			June 30, 2020	December 31, 2019	June 30, 2019
The Company	Egis Inc.(Cayman Islands) (note 1)	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 %	100.00 %
The Company	Egis Tec USA Inc.	Technology development	100.00 %	100.00 %	100.00 %
The Company	Egis Technology Korea Inc.	Customer service, business promotion and technical support	100.00 %	100.00 %	100.00 %
The Company	Igistec Co., Ltd. (note 2)	Technology development	74.69 %	74.69 %	74.69 %
The Company	Sense Media Company Ltd. (note 3)	Investment and holding activity	100 %	- %	- %

Note 1: Egis Inc. (Cayman Islands) was liquidated in June 2020.

Note 2: 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.

Note 3: The Group acquired and took control over Sense Media on June 3, 2020. Therefore, Sense Media has been included in Group's consolidated financial statements from the date the control commenced.

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

(c) Income taxes

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

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the effective tax rate at the time of realizations or liquidation and shall be recognized directly in equity or other comprehensive income as tax expense.

5. Critical accounting judgments and key sources of estimation uncertainty

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

The preparation of the consolidated interim financial statements, estimates and underlying assumptions, are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2019.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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6. Significant account disclosures

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

(a) Cash and cash equivalents

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Cash on hand	\$ 677	869	839
Bank deposits	275,906	762,961	388,437
Time deposits	1,721,503	2,398,400	2,102,762
Repurchase agreements -- bond	162,965	-	-
	<u>\$ 2,161,051</u>	<u>3,162,230</u>	<u>2,492,038</u>

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Current:			
Open-end mutual fund	\$ -	62,541	32,411
Non-current:			
Privately offered fund	9,534	5,309	-
	<u>\$ 9,534</u>	<u>67,850</u>	<u>32,411</u>

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Equity instruments at fair value through other comprehensive income:			
Domestic listed common shares	\$ 1,563,825	-	-
Unlisted common shares	231,225	195,216	195,216
	<u>\$ 1,795,050</u>	<u>195,216</u>	<u>195,216</u>

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

No strategic investments were disposed in the six months ended June 30, 2020 and 2019, 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
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(d) Accounts receivable

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Accounts receivable	\$ 652,705	343,682	1,231,892
Less: Allowance for impairment	<u>-</u>	<u>(327)</u>	<u>(338)</u>
	<u><u>\$ 652,705</u></u>	<u><u>343,355</u></u>	<u><u>1,231,554</u></u>

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

	<u>June 30, 2020</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	<u>\$ 652,705</u>	0.0001%	<u>-</u>
	<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><u>\$ 343,682</u></u>		<u><u>327</u></u>
	<u>June 30, 2019</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,231,554	0.0001%	-
More than 180 days past due	<u>338</u>	100%	<u>338</u>
	<u><u>\$ 1,231,892</u></u>		<u><u>338</u></u>

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

	<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 327	2,197
Impairment loss reversed	(330)	-
Write-off	-	(1,917)
Foreign exchange losses	<u>3</u>	<u>58</u>
Balance at June 30	<u><u>\$ -</u></u>	<u><u>338</u></u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(e) Inventories

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Raw materials	\$ 253,639	404,900	74,429
Work in process	294,919	346,282	188,833
Finished goods	<u>21</u>	<u>11,725</u>	<u>2,605</u>
	<u>\$ 548,579</u>	<u>762,907</u>	<u>265,867</u>

For the three months and six months ended June 30, 2020 and 2019, the cost of inventories sold, which were included in costs of revenue, amounted to \$821,070, \$942,553, \$1,664,851 and \$1,687,134, respectively, of which the write-downs of inventories to net realizable value amounted to \$13,565, \$28,476, \$132,101 and \$60,672, respectively.

(f) Other financial assets — current

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Time deposit (with original maturities of between three months and one year)	\$ 745,750	239,840	413,098
Restricted bank deposits	24,526	65,093	10,000
Other receivables	<u>11,080</u>	<u>13,041</u>	<u>16,726</u>
	<u>\$ 781,356</u>	<u>317,974</u>	<u>439,824</u>

(g) Investments accounted for using the equity method

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Associates	\$ 32,652	41,058	55,676
Joint ventures	<u>-</u>	<u>-</u>	<u>3,465</u>
	<u>\$ 32,652</u>	<u>41,058</u>	<u>59,141</u>

The Group's financial information on its investments in individually insignificant investments accounted for using the 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.

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

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Attributable to the Group:				
Net income (loss)	\$ (4,345)	(14,970)	(8,160)	(29,058)
Other comprehensive income (loss)	(175)	465	(246)	476
Total comprehensive income (loss)	<u>\$ (4,520)</u>	<u>(14,505)</u>	<u>(8,406)</u>	<u>(28,582)</u>

(h) Acquisition of subsidiaries

(i) Acquisition of subsidiary — Sense Media Company Ltd. (Sense Media)

1) The cost of acquisition

The Group acquired 100% ownership of Sense Media for a cash consideration of \$1,880 on June 3, 2020 (the acquisition date) in order to increase the common shares of FocalTech Systems Co., Ltd., where Sense Media holds a certain portion of its shares. Also, the Group assumed that Sense Media will be its holding and investing company for developing its venture capital business.

2) Identifiable net assets acquired from a business combination

The fair value information of assets acquired and liabilities assumed from the acquisition on the acquisition date are as follows:

Account	Amount
Cash	\$ 342
Non-current financial assets at fair value through other comprehensive income	1,610
Other liabilities, net	(72)
	<u>\$ 1,880</u>

3) Pro forma information

From the acquisition date to June 30, 2020, the Group incurred a revenue of \$0 and a net loss of \$(42) from Sense Media. However, if the acquisition had occurred on January 1, 2020, the management estimates that the consolidated revenue and net income after tax from January 1 to June 30, 2020 would have been \$3,173,457 and \$405,686, respectively.

(ii) Acquisition of subsidiary — Igistec Co., Ltd.

1) 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.

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

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.

2) Identifiable net assets acquired from a business combination

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

Purchase consideration:

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

3) Intangible assets—technology

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

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

4) Pro forma information

From the acquisition date to June 30, 2019, the Group incurred a revenue of \$0 and a net loss of \$(60,378) from Igistec. However, if the acquisition had occurred on January 1, 2019, the management estimates that the consolidated revenue and net income after tax from January 1 to June 30, 2019 would have been \$3,291,648 and \$354,247, respectively.

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

(i) Property, plant and equipment

	<u>Tooling</u>	<u>Research and development equipment</u>	<u>Leasehold improvement</u>	<u>Other equipment</u>	<u>Total</u>
Carrying amounts:					
Balance at June 30, 2020	\$ <u>355</u>	<u>28,239</u>	<u>9,687</u>	<u>39,892</u>	<u>78,173</u>
Balance at January 1, 2020	\$ <u>693</u>	<u>19,989</u>	<u>9,138</u>	<u>32,769</u>	<u>62,589</u>
Balance at June 30, 2019	\$ <u>1,050</u>	<u>14,815</u>	<u>6,758</u>	<u>26,607</u>	<u>49,230</u>

There were no significant additions, disposals, or recognition and reversal of impairment losses of property, plant and equipment for the six months ended June 30, 2020 and 2019. Information on depreciation for the period is discussed in note 12. Please refer to note 6(j) of the 2019 annual consolidated financial statement for other related information.

(j) Right-of-use assets

	<u>Buildings</u>
Cost:	
Balance at January 1, 2020	\$ 140,285
Additions	8,393
Disposals	<u>(65,703)</u>
Balance at June 30, 2020	<u>\$ 82,975</u>
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	18,233
Disposals	<u>(35)</u>
Balance at June 30, 2019	<u>\$ 132,457</u>
Accumulated depreciation:	
Balance at January 1, 2020	\$ 35,346
Depreciation	19,552
Disposals	<u>(22,425)</u>
Balance at June 30, 2020	<u>\$ 32,473</u>
Balance at January 1, 2019	\$ -
Depreciation	18,832
Disposals	<u>(1)</u>
Balance at June 30, 2019	<u>\$ 18,831</u>

(Continued)

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

	<u>Buildings</u>					
Carrying amount:						
Balance at June 30, 2020	\$		50,502			
Balance at January 1, 2020	\$		104,939			
Balance at June 30, 2019	\$		113,626			
 (k) Intangible assets						
		<u>Goodwill</u>	<u>Patent</u>	<u>Technology</u>	<u>Computer software</u>	<u>Total</u>
Costs:						
Balance at January 1, 2020	\$	111,403	25,714	112,078	73,062	322,257
Additions		-	-	-	6,287	6,287
Balance at June 30, 2020	\$	111,403	25,714	112,078	79,349	328,544
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		-	-	-	5,580	5,580
Effect of exchange rate changes		-	-	-	9	9
Balance at June 30, 2019	\$	111,403	25,714	112,078	59,410	308,605
Accumulated amortization and impairment loss:						
Balance at January 1, 2020	\$	-	23,348	37,697	37,720	98,765
Amortization		-	178	7,005	12,970	20,153
Balance at June 30, 2020	\$	-	23,526	44,702	50,690	118,918
Balance at January 1, 2019	\$	-	16,325	23,830	15,933	56,088
Acquisition through business combination		-	-	-	13	13
Amortization		-	3,511	6,862	10,435	20,808
Balance at June 30, 2019	\$	-	19,836	30,692	26,381	76,909
Carrying amount:						
Balance at June 30, 2020	\$	111,403	2,188	67,376	28,659	209,626
Balance at January 1, 2020	\$	111,403	2,366	74,381	35,342	223,492
Balance at June 30, 2019	\$	111,403	5,878	81,386	33,029	231,696
 (l) Short-term borrowings						
		<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>		
Secured bank loans	\$	1,378,760	1,193,486	968,042		
Unused credit facilities	\$	1,934,970	2,095,594	2,091,178		
Interest rate		0.86%~1.29%	1.06%~1.30%	1.06%~1.30%		

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

(m) Long-term debt

	June 30, 2020
Unsecured bank loans	\$ <u>990,000</u>
Unused credit facilities	\$ <u>-</u>
Maturity year	<u>2022~2024</u>
Interest rate	<u>1.53%~1.58%</u>

(i) Covenants for bank borrowings

The Company committed to the banks that the common shares of FocalTech Systems Co. Ltd. held by the Company, which are recognized in non-current financial assets at fair value through other comprehensive income, shall not be disposed, collateralized or transferred to third parties without any notice to the banks.

(ii) Compliance with loan agreement

According to the loan agreements, the Company is required to maintain certain financial ratios calculated based on the annual and semi-annual audited/reviewed consolidated financial statements. If the Company fails to meet any of the financial ratios, the banks shall charge the Company a commitment fee, which is 0.1% of the used credit facilities.

For the six months ended June 30, 2020, the Company's financial ratio was in compliance with the loan agreements.

(n) Lease liabilities

The Group's lease liabilities were as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Current	\$ <u>24,621</u>	<u>37,053</u>	<u>38,747</u>
Non-current	\$ <u>27,007</u>	<u>70,204</u>	<u>76,311</u>

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

The amounts recognized in profit or loss were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Interest expenses on lease liabilities	\$ <u>392</u>	<u>622</u>	<u>926</u>	<u>1,255</u>
Expenses relating to short-term leases	\$ <u>1,029</u>	<u>1,301</u>	<u>1,858</u>	<u>2,893</u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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The amounts recognized in the statement of cash flows for the Group were as follows:

	For the six months ended	
	June 30	
	2020	2019
Total cash outflow for leases	\$ 21,782	21,547

(i) Buildings leases

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

(ii) Other leases

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

(o) Employee benefits

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

For the three months and six months ended June 30, 2020 and 2019, the Group recognized the pension expenses of \$5,709, \$6,326, \$13,084 and \$12,016, respectively, in relation to the defined contribution plans.

(p) Income taxes

(i) Income tax expense

	For the three months		For the six months	
	ended June 30		ended June 30	
	2020	2019	2020	2019
Current income tax expense				
Current period	\$ 5,090	40,580	71,794	80,799
Withholding tax in foreign jurisdiction	341	835	678	1,407
Income tax expense	\$ 5,431	41,415	72,472	82,206

(ii) For the six months ended June 30, 2020 and 2019, there was no income tax expense recognized in other comprehensive income.

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

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

(q) Capital and other equity

Except for the following disclosures, there was no significant change in capital and other equity for the six months ended June 30, 2020 and 2019. For the related information, please refer to note 6(r) of the consolidated financial statements for the year ended December 31, 2019.

(i) Common stock

As of June 30, 2020, December 31 and June 30, 2019, the Company's authorized shares of common stock amounted to \$1,000,000 in total, at par value of \$10 (in New Taiwan Dollars) per share, and consisted of 100,000 thousand shares, of which 71,379 thousand shares, 71,265 thousand shares and 71,161 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	
	For the six months	
	ended June 30	
	2020	2019
Balance at January 1	68,886	68,111
Exercise of employee stock options	123	189
Vested restricted stock issued to employees	3	2
Treasury stock transferred to employees	200	-
Balance at June 30	69,212	68,302

(ii) Capital surplus

	June 30, 2020	December 31,	June 30, 2019
	\$	2019	2019
Paid-in capital in excess of par value	\$ 981,682	980,974	898,303
Compensation cost of employee stock options	1,012	1,012	18,586
Restricted stock issued to employees	16,156	17,186	57,645
Treasury share transactions	60,335	40,981	-
	\$ 1,059,185	1,040,153	974,534

(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.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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.

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 appropriation of 2019 and 2018 earnings were resolved by the shareholder's meeting held on June 18, 2020 and 2019, respectively; and the distributions to shareholders were as follows:

	<u>2019</u>		<u>2018</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	\$ 9.00	<u>623,536</u>	8.09	<u>554,844</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.

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

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

	<u>2020</u>	<u>2019</u>
Balance at January 1	2,300	2,600
Transfer	<u>(200)</u>	<u>-</u>
Balance at June 30	<u><u>2,100</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, 2020	\$ 2,361	(5,145)	(83,824)
Foreign exchange difference arising from translation of foreign operations:			
The Group	(1,316)	-	-
Joint ventures and associates	(246)	-	-
Deferred compensation cost	-	2,870	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>(16,014)</u>
Balance at June 30, 2020	<u><u>\$ 799</u></u>	<u><u>(2,275)</u></u>	<u><u>(99,838)</u></u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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	<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	(36)	-	-
Joint ventures and associates	476	-	-
Deferred compensation cost	-	13,655	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	-	-	(31,022)
Balance at June 30, 2019	<u>\$ 4,375</u>	<u>(16,992)</u>	<u>(83,824)</u>

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

	<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 8,631	-
Acquisition of subsidiary	-	18,609
Equity attributable to non-controlling interest:		
Net loss	(1,118)	(15,678)
Balance at June 30	<u>\$ 7,513</u>	<u>2,931</u>

(r) Share-based payment

(i) Employee stock options

There were no significant changes for employee stock options for the six months ended June 30, 2020 and 2019. Please refer to note 6(s) of the 2019 annual consolidated financial statement for the information on stock option plans and the assumptions adopted in the valuation model.

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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Information in employee stock option plans was as follows (Amounts in New Taiwan Dollars):

For the six months ended June 30				
		2020	2019	
	Weighted- average exercise price	Number of shares	Weighted- average exercise price	Number of shares
Outstanding, beginning of year	\$ 127.18	18,500	110.60	498,000
Exercised	-	-	127.18	(96,500)
Forfeited	-	-	-	-
Outstanding, at June 30	127.18	<u>18,500</u>	106.61	<u>401,500</u>
Exercisable, at June 30	127.18	<u>18,500</u>	106.61	<u>401,500</u>

June 30, 2020				
Year of grant	Number of shares outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number of shares exercisable
2015	<u>18,500</u>	0.34	\$ 127.18	<u>18,500</u>

December 31, 2019				
Year of grant	Number of shares outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number of shares exercisable
2015	<u>18,500</u>	0.84	\$ 127.18	<u>18,500</u>

June 30, 2019				
Year of grant	Number of shares outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number of shares exercisable
2014/12	285,000	0.47	\$ 98.20	285,000
2015	<u>116,500</u>	1.34	127.18	<u>116,500</u>
	<u>401,500</u>			<u>401,500</u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(ii) Restricted stock

There were no significant changes for restricted stock for the six months ended June 30, 2020 and 2019. Please refer to note 6(s) of the 2019 annual consolidated financial statement for the information on restricted stock.

Information in restricted stock was as follows:

1) 2017 plan of issuance of restricted stock

<u>Type</u>	<u>2017 condition 1</u>	<u>2017 condition 2</u>
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.

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

	For the six months ended	
	June 30	
	<u>2020</u>	<u>2019</u>
Balance at January 1	557	563
Forfeited	(5)	-
Balance at June 30	552	563
Accumulated vested shares	(487)	(304)
Unvested shares	<u>65</u>	<u>259</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

On February 3, 2020, the Company transferred 200 thousand shares to its employees at exercise price of NT\$99.93 per share. The compensation cost was measured at fair value using the difference between the exercise price and the market price of the share at the grant date, which was NT\$197 per share.

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(iv) Expenses resulted from share-based payments

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Treasury stock transferred to employees	\$ -	-	19,414	-
Restricted stock	1,409	6,827	2,458	13,692
	<u>\$ 1,409</u>	<u>6,827</u>	<u>21,872</u>	<u>13,692</u>

(s) Earnings per share ("EPS")

(i) Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Net income attributable to the shareholders of the Company	\$ 169,938	236,373	404,477	370,041
Weighted-average number of ordinary shares outstanding (in thousands)	69,212	68,287	69,173	68,252
Basic earnings per share (in New Taiwan Dollars)	<u>\$ 2.46</u>	<u>3.46</u>	<u>5.85</u>	<u>5.42</u>

(ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Net income attributable to the shareholders of the Company	\$ 169,938	236,373	404,477	370,041
Weighted-average number of ordinary shares outstanding (in thousands)	69,212	68,287	69,173	68,252
Effect of diluted potential ordinary shares:				
Stock options	5	219	6	215
Employees compensation	132	211	364	296
Restricted stock	51	171	55	166
Weighted-average shares of ordinary shares outstanding (in thousands) (including effect of dilutive potential ordinary shares)	<u>69,400</u>	<u>68,888</u>	<u>69,598</u>	<u>68,929</u>
Diluted earnings per share (in New Taiwan Dollars)	<u>\$ 2.45</u>	<u>3.43</u>	<u>5.81</u>	<u>5.37</u>

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(t) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Primary geographical markets:				
Taiwan	\$ 730	2,716	2,556	4,251
Asia	<u>1,514,368</u>	<u>1,895,813</u>	<u>3,170,901</u>	<u>3,287,397</u>
	<u>\$ 1,515,098</u>	<u>1,898,529</u>	<u>3,173,457</u>	<u>3,291,648</u>
Major products/ services line:				
Biometric authentication IC sensor and its application	\$ 1,514,392	1,897,559	3,170,951	3,289,083
Data security protection and its application	706	970	2,506	2,505
Non-recurring engineering service revenue	-	-	-	60
	<u>\$ 1,515,098</u>	<u>1,898,529</u>	<u>3,173,457</u>	<u>3,291,648</u>

(ii) Contract balances

	June 30, 2020	December 31, 2019	June 30, 2019
Accounts receivable	\$ 652,705	343,682	1,231,892
Less: Allowance for impairment	-	(327)	(338)
Total	<u>\$ 652,705</u>	<u>343,355</u>	<u>1,231,554</u>

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

(u) 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.

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For the three months and six months ended June 30, 2020 and 2019, the Company accrued its remuneration to employees amounting to \$9,318, \$31,493, \$25,376 and \$51,058, respectively, and its remuneration to directors amounting to \$1,863, \$3,149, \$5,075 and \$5,106, respectively, which were calculated by using the net profits before tax in the current period (excluding the remuneration to employees and directors), multiplied by the distribution ratio of remuneration to employees and directors under the Company's Article of Incorporation, and recognized them as operating expenses. The differences between the distributed and estimated amounts, if any, shall be accounted for as a change in accounting estimate and recognized as profit or loss in the distribution year.

For the years ended December 31, 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. 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.

(v) Non-operating income and loss

(i) Interest income

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Interest income from bank deposits	\$ 11,688	21,332	26,867	39,134
Interest income from other receivables	37	-	43	-
	<u>\$ 11,725</u>	<u>21,332</u>	<u>26,910</u>	<u>39,134</u>

(ii) Other income

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Rent income	\$ 210	179	421	335
Others	1,180	2,375	2,777	2,530
	<u>\$ 1,390</u>	<u>2,554</u>	<u>3,198</u>	<u>2,865</u>

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(iii) Other gains and losses

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Foreign exchange gains (losses), net	\$ (68,609)	29,924	(38,349)	42,826
Net gain (loss) on financial assets at fair value through profit or loss	100	1,344	(7,840)	1,572
Gain arising from lease modification	1,744	-	1,744	-
Others	(4,466)	(99)	(4,533)	(251)
	<u>\$ (71,231)</u>	<u>31,169</u>	<u>(48,978)</u>	<u>44,147</u>

(iv) Finance costs

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Interest expense on bank loans	\$ (3,801)	(3,873)	(9,451)	(7,418)
Lease liabilities	(392)	(622)	(926)	(1,255)
	<u>\$ (4,193)</u>	<u>(4,495)</u>	<u>(10,377)</u>	<u>(8,673)</u>

(w) Financial instruments

Except for the following disclosures, there was no significant change in the fair value of the Group's financial instruments and in the degree of exposure to credit risk and market risk arising from financial instruments. Please refer to note 6(x) of the consolidated financial statements for the year ended December 31, 2019 for the related information.

(i) Categories of financial instruments

1) Financial assets

	June 30, 2020	December 31, 2019	June 30, 2019
Financial assets at fair value through profit or loss— current and non-current	\$ 9,534	67,850	32,411
Financial assets at fair value through other comprehensive income	1,795,050	195,216	195,216
Financial assets at amortized cost:			
Cash and cash equivalents	2,161,051	3,162,230	2,492,038
Accounts receivable, net	652,705	343,355	1,231,554
Other receivables from related parties	5,969	-	-
Other financial assets— current and non-current	781,779	318,419	440,285
Refundable deposits	10,422	10,551	10,825
Subtotal	<u>3,611,926</u>	<u>3,834,555</u>	<u>4,174,702</u>
Total	<u>\$ 5,416,510</u>	<u>4,097,621</u>	<u>4,402,329</u>

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2) Financial liabilities

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Financial liabilities at amortized cost:			
Short-term borrowings	\$ 1,378,760	1,193,486	968,042
Notes and accounts payable	230,952	561,738	573,731
Cash dividends payable	623,536	-	554,844
Accrued expenses	529,680	352,301	545,260
Lease liabilities – current and non-current	51,628	107,257	115,058
Long-term debt	990,000	-	-
	<u>\$ 3,804,556</u>	<u>2,214,782</u>	<u>2,756,935</u>

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of loan agreements. As of June 30, 2020, December 31 and June 30, 2019 the Group had unused credit facilities of \$1,934,970, \$2,095,594 and \$2,091,178, 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>
June 30, 2020			
Short-term borrowings	\$ 1,381,008	1,381,008	-
Notes and accounts payable	230,952	230,952	-
Cash dividends payable	623,536	623,536	-
Accrued expenses	529,680	529,680	-
Lease liabilities	52,781	24,828	27,953
Long-term debt	1,036,971	15,832	1,021,139
	<u>\$ 3,854,928</u>	<u>2,805,836</u>	<u>1,049,092</u>
December 31, 2019			
Short-term borrowings	\$ 1,194,203	1,194,203	-
Notes and accounts payable	561,738	561,738	-
Accrued expenses	352,301	352,301	-
Lease liabilities	110,617	37,395	73,222
	<u>\$ 2,218,859</u>	<u>2,145,637</u>	<u>73,222</u>

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June 30, 2019	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>
Short-term borrowings	\$ 968,964	968,964	-
Notes and accounts payable	573,731	573,731	-
Cash dividends payable	554,844	554,844	-
Accrued expenses	545,260	545,260	-
Lease liabilities	<u>118,868</u>	<u>39,120</u>	<u>79,748</u>
	<u>\$ 2,761,667</u>	<u>2,681,919</u>	<u>79,748</u>

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

(iii) Foreign currency risk

1) Exposure to foreign currency risk

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

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, were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

June 30, 2020					
	<u>Foreign currency (in thousands)</u>	<u>Exchange rate</u>	<u>TWD (in thousands)</u>	<u>Change in magnitude of the exchange rate</u>	<u>Pre-tax effect on profit or loss (in thousands)</u>
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 118,418	29.63	3,508,725	1 %	35,087
<u>Non-Monetary items</u>					
USD	7,763	29.63	230,018	1 %	2,300
<u>Financial liabilities</u>					
USD	16,787	29.63	497,399	1 %	4,974

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December 31, 2019					
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 121,436	29.98	3,640,651	1 %	36,407
<u>Non-Monetary items</u>					
USD	8,263	29.98	247,725	1 %	2,477
<u>Financial liabilities</u>					
USD	28,429	29.98	852,301	1 %	8,523
June 30, 2019					
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 129,996	31.06	4,037,676	1 %	40,377
<u>Non-Monetary items</u>					
USD	7,000	31.06	217,420	1 %	2,174
<u>Financial liabilities</u>					
USD	33,662	31.06	1,045,542	1 %	10,455

2) Gains or losses on monetary items

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

	For the three months ended June 30			
	2020		2019	
	Foreign exchange gains (losses)	Average exchange rate	Foreign exchange gains (losses)	Average exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (74,568)	29.8915	30,334	31.1375
<u>Financial liabilities</u>				
USD:TWD	5,740	29.8915	(662)	31.1375

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	For the six months ended June 30			
	2020		2019	
	Foreign exchange gains (losses)	Average exchange rate	Foreign exchange gains (losses)	Average exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (26,912)	30.0004	39,631	30.9874
<u>Financial liabilities</u>				
USD:TWD	(11,470)	30.0004	3,025	30.9874

(iv) Other market price risk

The investment target of the open-end mutual funds held by the Group are mostly bond or monetary funds. The Group anticipates that there is no significant market risk related to the funds.

The Group has strategic investments in listed and unlisted common shares, which the Group does not actively participate in trading.

Assuming there was an increase or a decrease of 5% in equity investment prices at each reporting date, the other comprehensive income for the six months ended June 30, 2020 and 2019 would have increased or decreased by \$89,753 and \$9,761 respectively.

(v) 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).

	June 30, 2020				
	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss – non-current :					
Privately offered fund	\$ 9,534	-	-	9,534	9,534
Financial assets at fair value through other comprehensive income – non-current:					
Listed common shares	1,563,825	1,563,825	-	-	1,563,825
Unlisted common shares	231,225	-	-	231,225	231,225
Subtotal	<u>1,795,050</u>	<u>1,563,825</u>	<u>-</u>	<u>231,225</u>	<u>1,795,050</u>
	<u>\$ 1,804,584</u>	<u>1,563,825</u>	<u>-</u>	<u>240,759</u>	<u>1,804,584</u>
	December 31, 2019				
	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
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>

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	June 30, 2019				
	Carrying	Fair Value			Total
	Amount	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Open-end mutual fund	\$ 32,411	32,411	-	-	32,411
Financial assets at fair value through other comprehensive income – non-current:					
Unlisted common shares	<u>195,216</u>	<u>-</u>	<u>-</u>	<u>195,216</u>	<u>195,216</u>
	<u>\$ 227,627</u>	<u>32,411</u>	<u>-</u>	<u>195,216</u>	<u>227,627</u>

3) Valuation techniques and assumptions used in fair value measurement

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

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

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

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.

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4) Quantitative information of significant unobservable inputs

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Interrelationship 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 (30%)	The estimated fair value would decrease if the discount for lack of marketability was higher
		Price-Book ratio (3.52~3.98, 3.87~5.80 and 3.14~4.41 on June 30, 2020, December 31 and June 30, 2019, 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>
June 30, 2020				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,922	(1,922)
December 31, 2019				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,522	(1,522)
June 30, 2019				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,488	(1,488)

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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.

(vi) Transfer between fair value levels

There are no transfers between fair value levels for the six months ended June 30, 2020 and 2019.

(vii) Movements in financial assets included Level 3 fair values hierarchy were as follows:

	For the three months ended June 30			
	2020		2019	
	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	\$ 8,100	170,605	-	163,321
Total gains or losses:				
Recognized in profit or loss	100	-	-	-
Recognized in other comprehensive income	-	-	-	(30,245)
Additions	1,334	60,620	-	62,140
Ending Balance	<u>\$ 9,534</u>	<u>231,225</u>	<u>-</u>	<u>195,216</u>
	For the six months ended June 30			
	2020		2019	
	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	\$ 5,309	195,216	-	41,033
Total gains or losses:				
Recognized in profit or loss	290	-	-	-
Recognized in other comprehensive income	-	(24,611)	-	(31,022)
Additions	3,935	60,620	-	185,205
Ending Balance	<u>\$ 9,534</u>	<u>231,225</u>	<u>-</u>	<u>195,216</u>

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(x) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6(y) of the consolidated financial statements for the year ended December 31, 2019.

(y) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2019. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2019. Please refer to note 6(z) of the consolidated financial statements for the year ended December 31, 2019 for further details.

(z) 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(j).

(ii) Reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1, 2020</u>	<u>Cash flows</u>	<u>Non-cash changes</u> <u>Additions to</u> <u>lease</u> <u>liabilities</u>	<u>June 30, 2020</u>
Short-term borrowings	\$ 1,193,486	185,274	-	1,378,760
Long-term debt	-	990,000	-	990,000
Lease liabilities	<u>107,257</u>	<u>(18,998)</u>	<u>(36,631)</u>	<u>51,628</u>
Total amount of liabilities from financing activities	<u>\$ 1,300,743</u>	<u>1,156,276</u>	<u>(36,631)</u>	<u>2,420,388</u>

	<u>January 1, 2019</u>	<u>Effect of retrospective adoption of IFRS 16</u>	<u>Cash flows</u>	<u>Non-cash changes</u> <u>Additions to</u> <u>lease</u> <u>liabilities</u>	<u>June 30, 2019</u>
Short-term borrowings	\$ 961,315	-	6,727	-	968,042
Lease liabilities	<u>-</u>	<u>114,259</u>	<u>(17,399)</u>	<u>18,198</u>	<u>115,058</u>
Total amount of liabilities from financing activities	<u>\$ 961,315</u>	<u>114,259</u>	<u>(10,672)</u>	<u>18,198</u>	<u>1,083,100</u>

(Continued)

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

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.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Sirius Wireless Pte. Ltd.	Associates

(b) Significant transactions with related parties

(i) Other receivables—related parties (loans)

<u>Account</u>	<u>Related-party categories</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other receivables—loan	Associates	\$ 5,926	-	-
Other receivables—interest	Associates	43	-	-
		<u>\$ 5,969</u>	<u>-</u>	<u>-</u>

The Group loaned to the associate—Sirius Wireless Pte. Ltd. with the interest rate of 2.537%. As of June 30, 2020, there was no expected credit loss after the management's assessment. For the three months and six months ended June 30, 2020, the interest income amounted to \$37 and \$43, respectively.

(c) Compensation for key management personnel

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 22,691	19,664	51,580	33,101
Post-employment benefits	270	241	530	457
Share-based payments	225	3,846	19,865	7,691
	<u>\$ 23,186</u>	<u>23,751</u>	<u>71,975</u>	<u>41,249</u>

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

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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8. Pledged assets

<u>Assets</u>	<u>Pledged to secure</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other financial assets — current (time deposits)	Deposit for purchase fulfillment	\$ -	10,000	10,000
Other financial assets — current (bank deposits)	Performance guarantee	24,526	55,093	-
Other financial assets — non- current (time deposits)	Performance guarantee	<u>423</u>	<u>445</u>	<u>461</u>
		<u>\$ 24,949</u>	<u>65,538</u>	<u>10,461</u>

9. Significant commitments and contingencies

Shenzhen Goodix Technology Co., Ltd. (Goodix) has filed a patent infringement complaint with the Beijing Intellectual Property Court against the Company in July 2019, wherein it requested the Company to pay the compensation amounting to CNY 50,500 thousand (approximately NT\$228,000 thousand) for the damage. The Company received the complaint in August 2019, and 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. In March 2020, Beijing Intellectual Property Court issued a notice of dismissal, which the claim from Goodix was dismissed. As of August 12, 2020, the Company has yet to receive the notice of appeal against the judgement from Goodix.

10. Significant loss from casualty: None.

11. Significant subsequent Events

Shenzhen Goodix Technology Co., Ltd. (Goodix) has filed another patent infringement complaint with the Beijing Intellectual Property Court against the Company in July 2020, wherein it requested the Company to pay the compensation amounting to CNY 50,500 thousands (approximately NT\$228,000 thousand) for the damage. The Company received the complaint in July 21, 2020 and 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.

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

12. Other

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

By function	For the three months ended June 30, 2020			For the three months ended June 30, 2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits:						
Salaries	-	219,151	219,151	-	204,469	204,469
Labor and health insurance	-	9,745	9,745	-	8,690	8,690
Pension	-	5,709	5,709	-	6,326	6,326
Other employees' benefits	-	7,191	7,191	-	8,370	8,370
Depreciation	694	18,089	18,783	694	14,061	14,755
Amortization	-	10,141	10,141	-	10,574	10,574

By function	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits:						
Salaries	-	458,956	458,956	-	386,970	386,970
Labor and health insurances	-	21,619	21,619	-	17,282	17,282
Pension	-	13,084	13,084	-	12,016	12,016
Other employees' benefits	-	14,542	14,542	-	15,498	15,498
Depreciation	1,387	34,955	36,342	1,387	27,006	28,393
Amortization	-	20,153	20,153	-	20,808	20,808

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

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 six months ended June 30, 2020:

(i) Financing provided to other parties:

(In Thousands of New Taiwan Dollars)

No	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the period	Ending Balance	Actually drawdown Amounts	Interest rate	Nature of Financing	Transaction Amounts	Reasons for Short-term Financing	Loss Allowance	Collateral		Financing Limit for each Borrowing Company	Financing Company's Total Financing Amount Limits
													Item	Value		
0	The Company	Sirius Wireless Pte. Ltd. (note 2)	Other receivables from related parties	Yes	6,045	5,926	5,926	2.537%	2	-	Operating Requirements	-		-	107,068	214,136

Note 1: Parties to the intercompany transactions are identified and numbered as follows:

1. “0” represents the Company.
2. Subsidiaries are numbered from “1”.

Note 2: Sirius Wireless Pte. Ltd. is an associate of the Group.

Note 3: The aggregate financing amount shall not exceed 30% of the paid-in capital of the Company, within which the financing amount for the entities the Company has business transaction with shall not exceed 75% of the abovementioned aggregate financing amount, and the short-term financing amount shall not exceed 50% of the abovementioned aggregate financing amount. The individual financing amount shall not exceed 15% of the paid-in capital of the Company, within which the financing amount for the entities the Company has business transaction with shall not exceed the transaction amount, and the short-term financing amount shall not exceed 15% of the net worth of the Company.

Note 4: Nature of Financing

- 1 for entities the Company has business transactions with
- 2 for entities with short-term financing needs

(ii) Guarantees and endorsements provided to other parties:

(In Thousands of New Taiwan Dollars and US Dollars)

No.	Endorsement/ Guarantee Provide	Guaranteed party		Limitation on Endorsement/ Guarantee Amount Provided to Each Guarantee Party (note 2)	Maximum Balance for the period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship (note 1)										
0	The Company	CoreSystem Technology Limited	1	834,823	121,000 (USD 4,000)	118,520	67,219	-	4.54 %	1,304,104 (Note 2)	N	N	Y

Note 1: Relationships between the endorsement/guarantee provider and the guaranteed party:

- 1 for entities which the Company has business transactions with

Note 2: Both endorsement/guarantee amount provided in aggregate and provided to individual guarantee party shall not exceed 50% of the most recent audited or reviewed net worth of the Company, within which the endorsement/guarantee amount provided to individual guarantee party that has business transaction with the Company shall not exceed the transaction amount between both parties from the most recent audited or reviewed financial statements.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (iii) Marketable securities held at reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Gingy Technology Inc.	-	Financial assets at fair value through other comprehensive income	314	3,988	3.18 %	3,988	
The Company	THEIA LIMITED	-	Financial assets at fair value through other comprehensive income	100,000	-	11.20 %	-	
The Company	Integrated Digital Technologies, Inc.	-	Financial assets at fair value through other comprehensive income	4,000	-	13.96 %	-	
The Company	AIStorm, Inc.	-	Financial assets at fair value through other comprehensive income	4,688	183,685	19.14 %	183,685	
The Company	MEMS DRIVE INC.	-	Financial assets at fair value through other comprehensive income	188	43,552	3.25 %	43,552	
The Company	Vertex Growth (SG) LP	-	Financial assets at fair value through profit or loss non-current	-	8,826	-	8,826	
The Company	Vertex Ventures (SG) SEA IV LP	-	Financial assets at fair value through profit or loss non-current	-	708	-	708	
The Company	FocalTech Systems Co., Ltd	-	Financial assets at fair value through other comprehensive income	48,516	1,562,215	16.18 %	1,562,215	
Sense Media	FocalTech Systems Co., Ltd	-	Financial assets at fair value through other comprehensive income	50	1,610	0.02 %	1,610	

- (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital:

Amounts in Thousands of New Taiwan Dollars/Shares

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisitions		Disposal			Ending Balance		
					Shares (thousands)	Amount	Shares (thousands)	Amount	Shares (thousands)	Amount	Carrying Value	Gain(Loss) on Disposal	Shares (thousands)	Amount (Note)
The Company	Common Shares-FocalTech Systems Co., Ltd.	Financial assets at fair value through profit or loss current			-	-	2,952	76,179	2,952	75,585	76,179	(594)	-	-
The Company	Common Shares-FocalTech Systems Co., Ltd.	Financial assets at fair value through other comprehensive income non-current			-	-	48,516	1,553,618	-	-	-	-	48,516	1,562,215

Note: The ending balance includes unrealized gain (loss) from financial assets at fair value through other comprehensive income.

- (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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the six months ended June 30, 2020 (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 June 30, 2020			Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				June 30, 2020	December 31, 2019	Shares (in thousands)	Percentage of Ownership	Carrying Value			
The Company	Egis Inc	Cayman Islands	Investment and holding activity	-	669,233	-	-	-	-	Parent/subsidiary	
The Company	Egis Technology (Japan) Inc	Japan	Sale of data security software and biometric authentication software and hardware	109,279	109,279	7,680	100.00 %	3,704	(10,097)	Parent/subsidiary	
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	4,594	352	Parent/subsidiary	
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	18,233	18,233	20	100.00 %	23,540	452	Parent/subsidiary	
The Company	Tyrafos Technologies Co., Limited	Hong Kong	Technology development	19,517	19,517	5,265	65.00 %	-	1,451	Joint venture	
The Company	Igistec Co., Ltd.	Taiwan	Technology development	59,497	59,497	16,527	74.69 %	26,748	(2,713)	Parent/subsidiary	
The Company	Sirius Wireless Pte Ltd	Singapore	Technology development	61,760	61,760	40,080	50.05 %	32,652	(15,094)	Associates	
The Company	Sense Media Company Ltd	Taiwan	Investment and holding activity	1,880	-	167	100.00 %	1,652	42	Parent/subsidiary	

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

(c) Information on investment in mainland China: None.

(d) Information on major shareholders:

The information on major shareholders, which is provided by the Taiwan Depository & Clearing Corporation, none of the shareholders hold over 5% of stocks.

14. Segment information

The Group is mainly engaged in the research and development, design and sale of data security software and biometric identification software and hardware. The overall operating results are regularly reviewed by the Group's chief operating decision maker to assess its performance. Therefore, the Group has only one reportable segment. For the six months ended June 30, 2020 and 2019, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.