

EGIS TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Nine Months Ended September 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 September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and nine months then ended as well as the changes in equity and cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

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



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

KPMG

Taipei, Taiwan (Republic of China)
November 11, 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 September 30, 2020 and 2019

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2020, December 31 and September 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

	September 30, 2020		December 31, 2019		September 30, 2019			September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Assets													
Current assets:							Liabilities and Equity						
1100 Cash and cash equivalents (notes 6(a) and 8)	\$ 731,093	14	3,162,230	57	2,370,371	40	2100 Short-term borrowings (notes 6(l)(z))	\$ 71,844	2	1,193,486	22	1,384,315	23
1110 Financial assets at fair value through profit or loss – current (notes 6(b) and 13)	-	-	62,541	1	63,923	1	2170 Notes and accounts payable	334,431	6	561,738	10	903,517	15
1170 Accounts receivable, net (notes 6(d)(t))	1,007,025	19	343,355	6	1,621,835	27	2230 Current tax liabilities	44,552	1	166,761	3	187,993	3
1210 Other receivables from related parties (note 7)	17,564	-	-	-	-	-	2280 Current lease liabilities (notes 6(n)(z))	37,957	1	37,053	1	35,408	1
130X Inventories (note 6(e))	258,416	5	762,907	14	394,177	7	2399 Accrued expenses and other current liabilities (note 6(u))	762,601	14	687,074	12	851,628	14
1410 Prepaid expenses and other current assets	142,418	3	160,921	3	173,493	3	Total current liabilities	1,251,385	24	2,646,112	48	3,362,861	56
1476 Other financial assets – current (notes 6(f) and 8)	664,335	13	317,974	6	694,195	11	Non-current liabilities:						
Total current assets	2,820,851	54	4,809,928	87	5,317,994	89	2540 Long-term debt (notes 6(m)(z))	990,000	19	-	-	-	-
Non-current assets:							2570 Deferred income tax liabilities	75	-	75	-	1,038	-
1510 Non-current financial assets at fair value through profit or loss (notes 6(b) and 13)	10,328	-	5,309	-	-	-	2580 Non-current lease liabilities (notes 6(n)(z))	108,780	2	70,204	1	66,613	1
1517 Non-current financial assets at fair value through other comprehensive income (notes 6(c) and 13)	1,819,333	35	195,216	4	195,216	3	Total non-current liabilities	1,098,855	21	70,279	1	67,651	1
1550 Investments accounted for using the equity method (notes 6(g) and 13)	30,844	1	41,058	1	49,742	1	Total liabilities	2,350,240	45	2,716,391	49	3,430,512	57
1600 Property, plant and equipment (note 6(i))	84,657	2	62,589	1	52,476	1	Equity (notes 6(q)(r)):						
1755 Right-of-use assets (note 6(j))	143,203	3	104,939	2	100,402	2	3110 Common stock	713,788	14	712,653	13	711,608	12
1780 Intangible assets (notes 6(h)(k))	200,269	4	223,492	4	227,729	4	3140 Common stock subscribed	-	-	1,225	-	1,005	-
1840 Deferred income tax assets	74,540	1	74,540	1	40,361	-	3200 Capital surplus	1,059,185	20	1,040,153	19	1,012,903	17
1960 Prepayments for investments	10,000	-	-	-	-	-	Retained earnings:						
1920 Refundable deposits	15,408	-	10,551	-	10,893	-	3310 Legal reserve	224,069	4	137,801	2	137,801	2
1980 Other financial assets – non-current (note 8)	427	-	445	-	444	-	3320 Special reserve	81,463	2	48,867	1	48,867	1
1995 Other non-current assets	3,780	-	-	-	-	-	3350 Unappropriated earnings	1,053,234	20	1,197,715	22	994,646	16
Total non-current assets	2,392,789	46	718,139	13	677,263	11	Other equity interest:						
							3411 Exchange differences on translation of foreign financial statements	934	-	2,361	-	3,557	-
							3420 Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(45,310)	(1)	(83,824)	(2)	(83,824)	(1)
							3491 Deferred compensation cost arising from issuance of restricted stock	(910)	-	(5,145)	-	(10,165)	-
							3500 Treasury stock	(228,775)	(4)	(248,761)	(4)	(258,754)	(4)
							Equity attributable to shareholders of the Company	2,857,678	55	2,803,045	51	2,557,644	43
							36XX Non-controlling interests	5,722	-	8,631	-	7,101	-
							Total equity	2,863,400	55	2,811,676	51	2,564,745	43
Total assets	\$ 5,213,640	100	5,528,067	100	5,995,257	100	Total liabilities and equity	\$ 5,213,640	100	5,528,067	100	5,995,257	100

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended September 30, 2020 and 2019, and nine months ended September 30, 2020 and 2019

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

	For the three months ended September 30				For the nine months ended September 30				
	2020		2019		2020		2019		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	Revenue (note 6(t))	\$ 1,852,612	100	2,075,413	100	5,026,069	100	5,367,061	100
5000	Costs of revenue (notes 6(e)(i) and 12)	<u>(1,059,345)</u>	<u>(57)</u>	<u>(1,161,982)</u>	<u>(56)</u>	<u>(2,789,284)</u>	<u>(55)</u>	<u>(3,155,433)</u>	<u>(59)</u>
	Gross profit	<u>793,267</u>	<u>43</u>	<u>913,431</u>	<u>44</u>	<u>2,236,785</u>	<u>45</u>	<u>2,211,628</u>	<u>41</u>
	Operating expenses (notes 6(d)(i)(j)(k)(n)(o)(r)(u), 7 and 12):								
6100	Selling expenses	(74,157)	(4)	(90,738)	(4)	(210,296)	(5)	(210,717)	(4)
6200	Administrative expenses	(71,053)	(4)	(94,974)	(5)	(236,935)	(5)	(243,703)	(4)
6300	Research and development expenses	<u>(332,724)</u>	<u>(18)</u>	<u>(354,876)</u>	<u>(17)</u>	<u>(960,983)</u>	<u>(19)</u>	<u>(996,211)</u>	<u>(19)</u>
	Total operating expenses	<u>(477,934)</u>	<u>(26)</u>	<u>(540,588)</u>	<u>(26)</u>	<u>(1,408,214)</u>	<u>(29)</u>	<u>(1,450,631)</u>	<u>(27)</u>
	Operating income	<u>315,333</u>	<u>17</u>	<u>372,843</u>	<u>18</u>	<u>828,571</u>	<u>16</u>	<u>760,997</u>	<u>14</u>
	Non-operating income and loss:								
7100	Interest income (notes 6(v) and 7)	6,418	-	22,907	1	33,328	-	62,041	1
7010	Other income (note 6(v))	25,870	1	5,129	-	29,068	-	7,994	-
7020	Other gains and losses, net (note 6(v))	(44,443)	(2)	(4,478)	-	(93,421)	(1)	39,669	1
7050	Finance costs (notes 6(n)(v))	(7,567)	-	(5,609)	-	(17,944)	-	(14,282)	-
7060	Share of profits of associates and joint ventures accounted for using the equity method (notes 6(g) and 13)	<u>(6,672)</u>	<u>-</u>	<u>(9,337)</u>	<u>(1)</u>	<u>(14,832)</u>	<u>-</u>	<u>(38,395)</u>	<u>(1)</u>
	Total non-operating income and loss	<u>(26,394)</u>	<u>(1)</u>	<u>8,612</u>	<u>-</u>	<u>(63,801)</u>	<u>(1)</u>	<u>57,027</u>	<u>1</u>
	Net income before tax	<u>288,939</u>	<u>16</u>	<u>381,455</u>	<u>18</u>	<u>764,770</u>	<u>15</u>	<u>818,024</u>	<u>15</u>
7950	Less: Income tax expenses (note 6(p))	<u>(67,043)</u>	<u>(4)</u>	<u>(87,714)</u>	<u>(4)</u>	<u>(139,515)</u>	<u>(3)</u>	<u>(169,920)</u>	<u>(3)</u>
	Net income	<u>221,896</u>	<u>12</u>	<u>293,741</u>	<u>14</u>	<u>625,255</u>	<u>12</u>	<u>648,104</u>	<u>12</u>
	Other comprehensive income:								
	Items that will not be reclassified subsequently to profit or loss:								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (notes 6(q)(w))	24,283	1	-	-	8,269	1	(31,022)	-
8349	Income tax related to items that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>24,283</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>8,269</u>	<u>1</u>	<u>(31,022)</u>	<u>-</u>
	Items that may be reclassified subsequently to profit or loss:								
8361	Exchange differences on translation of foreign operations (note 6(q))	179	-	(756)	-	(1,137)	-	(792)	-
8370	Accounted for using the equity method, components of other comprehensive income that will be reclassified to profit or loss (note 6(g)(q))	(106)	-	(62)	-	(352)	-	414	-
8399	Income tax related to items that may be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>73</u>	<u>-</u>	<u>(818)</u>	<u>-</u>	<u>(1,489)</u>	<u>-</u>	<u>(378)</u>	<u>-</u>
	Other comprehensive income (loss), net	<u>24,356</u>	<u>1</u>	<u>(818)</u>	<u>-</u>	<u>6,780</u>	<u>1</u>	<u>(31,400)</u>	<u>-</u>
	Comprehensive income	<u>\$ 246,252</u>	<u>13</u>	<u>292,923</u>	<u>14</u>	<u>632,035</u>	<u>13</u>	<u>616,704</u>	<u>12</u>
	Net income attributable to:								
8610	Shareholders of the Company	\$ 223,687	12	289,571	14	628,164	12	659,612	12
8620	Non-controlling interests	<u>(1,791)</u>	<u>-</u>	<u>4,170</u>	<u>-</u>	<u>(2,909)</u>	<u>-</u>	<u>(11,508)</u>	<u>-</u>
		<u>\$ 221,896</u>	<u>12</u>	<u>293,741</u>	<u>14</u>	<u>625,255</u>	<u>12</u>	<u>648,104</u>	<u>12</u>
	Total comprehensive income attributable to:								
8710	Shareholders of the Company	\$ 248,043	13	288,753	14	634,944	13	628,212	12
8720	Non-controlling interests	<u>(1,791)</u>	<u>-</u>	<u>4,170</u>	<u>-</u>	<u>(2,909)</u>	<u>-</u>	<u>(11,508)</u>	<u>-</u>
		<u>\$ 246,252</u>	<u>13</u>	<u>292,923</u>	<u>14</u>	<u>632,035</u>	<u>13</u>	<u>616,704</u>	<u>12</u>
	Earnings per share (in New Taiwan Dollars) (note 6(s)) :								
9750	Basic earnings per share	\$ <u>3.23</u>		<u>4.23</u>		<u>9.08</u>		<u>9.65</u>	
9850	Diluted earnings per share	\$ <u>3.22</u>		<u>4.19</u>		<u>9.02</u>		<u>9.55</u>	

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

Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2020 and 2019
(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	Total	Non-controlling interests	Total equity
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	-	-	-	-	-	(554,844)	-	-	-	-	(554,844)	-	(554,844)
Treasury stock transferred to employees	-	-	(60)	-	-	-	-	-	-	19,986	19,926	-	19,926
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	18,609	18,609
Issuance of common stock from exercise of employee stock options	1,895	75	22,723	-	-	-	-	-	-	-	24,693	-	24,693
Compensation cost of employee stock options	-	-	27,014	-	-	-	-	-	-	-	27,014	-	27,014
Compensation cost arising from restricted shares of stock issued to employees	-	-	37	-	-	-	-	-	20,482	-	20,519	-	20,519
Retirement of restricted shares of stock issued to employees	(30)	-	30	-	-	-	-	-	-	-	-	-	-
Net income in 2019	-	-	-	-	-	659,612	-	-	-	-	659,612	(11,508)	648,104
Other comprehensive income in 2019	-	-	-	-	-	-	(378)	(31,022)	-	-	(31,400)	-	(31,400)
Total comprehensive income in 2019	-	-	-	-	-	659,612	(378)	(31,022)	-	-	628,212	(11,508)	616,704
Balance at September 30, 2019	\$ 711,608	1,005	1,012,903	137,801	48,867	994,646	3,557	(83,824)	(10,165)	(258,754)	2,557,644	7,101	2,564,745
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	-	-	-	-	-	(623,536)	-	-	-	-	(623,536)	-	(623,536)
Treasury stock transferred to employees	-	-	(60)	-	-	-	-	-	-	19,986	19,926	-	19,926
Disposal of investments accounted for using the equity method	-	-	-	-	-	-	62	-	-	-	62	-	62
Disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	(30,245)	-	30,245	-	-	-	-	-
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)	-	-	-	-	-	4,235	-	3,823	-	3,823
Retirement of restricted shares of stock issued to employees	(90)	-	90	-	-	-	-	-	-	-	-	-	-
Net income in 2020	-	-	-	-	-	628,164	-	-	-	-	628,164	(2,909)	625,255
Other comprehensive income in 2020	-	-	-	-	-	-	(1,489)	8,269	-	-	6,780	-	6,780
Total comprehensive income in 2020	-	-	-	-	-	628,164	(1,489)	8,269	-	-	634,944	(2,909)	632,035
Balance at September 30, 2020	\$ 713,788	-	1,059,185	224,069	81,463	1,053,234	934	(45,310)	(910)	(228,775)	2,857,678	5,722	2,863,400

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2020	2019
Cash flows from operating activities:		
Income before income taxes	\$ 764,770	818,024
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation	56,244	44,054
Amortization	30,281	31,497
Expected credit gain	(330)	-
Net loss (gain) on financial assets at fair value through profit or loss	8,552	(2,733)
Interest expense	17,944	14,282
Interest income	(33,328)	(62,041)
Dividend income	(24,424)	-
Share-based payments	23,237	47,533
Share of loss of associates and joint ventures accounted for using the equity method	14,832	38,395
Loss on disposal of property, plant and equipment	6,260	39
Loss on disposal of intangible assets	-	679
Gain on disposal of investments	(19,468)	-
Gain arising from lease modifications	(1,744)	(139)
Total adjustments to reconcile profit	78,056	111,566
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(663,270)	(1,007,508)
Inventories	504,491	161,742
Prepayments and other current assets	22,687	(88,536)
Total changes in operating assets	(136,092)	(934,302)
Changes in operating liabilities:		
Notes and accounts payable	(227,307)	507,043
Accrued expenses and other current liabilities	77,137	400,429
Total changes in operating liabilities	(150,170)	907,472
Total changes in operating assets and liabilities	(286,262)	(26,830)
Cash provided by operations	556,564	902,760
Interest received	40,533	53,328
Dividends received	24,424	-
Interest paid	(18,449)	(14,334)
Income taxes paid	(267,155)	(99,831)
Net cash provided by operating activities	335,917	841,923

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 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	(96,566)	(61,190)
Proceeds from disposal of financial assets at fair value through profit	145,536	-
Acquisition of investments accounted for using the equity method	(4,970)	(43,232)
Proceeds from disposal of investments accounted for using the equity method	19,530	-
Increase in prepayments for investments	(10,000)	-
Net cash flows from acquisition of subsidiaries	(1,538)	34,034
Acquisition of property, plant and equipment	(54,529)	(27,742)
Increase in other receivables from related parties	(17,564)	-
Acquisition of intangible assets	(7,058)	(12,978)
Increase in other financial assets	(353,548)	(656,770)
Increase in refundable deposits	(4,857)	(741)
Increase in other non-current assets	(3,780)	-
Net cash used in investing activities	<u>(2,003,582)</u>	<u>(830,759)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	7,516,526	4,902,554
Repayments of short-term borrowings	(8,638,168)	(4,479,554)
Proceeds from long-term debt	990,000	-
Payment of lease liabilities	(27,144)	(26,705)
Cash dividends distributed to shareholders	(623,536)	(554,844)
Proceeds from exercise of employee stock options	-	24,693
Treasury stock transferred to employees	19,926	19,926
Net cash used in financing activities	<u>(762,396)</u>	<u>(113,930)</u>
Effects of foreign exchange rate changes	<u>(1,076)</u>	<u>(726)</u>
Net decrease in cash and cash equivalents	(2,431,137)	(103,492)
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><u>\$ 731,093</u></u>	<u><u>2,370,371</u></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 nine months ended September 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.

2. Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on November 11, 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 the 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, 2021:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	January 1, 2021

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

(Continued)

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 23, 2020	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.

(Continued)

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

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.

(b) Basis of consolidation

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

Names of Investors	Names of Subsidiaries	Principal Activities	Shareholdings		
			September 30, 2020	December 31, 2019	September 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 Investment and Consulting Inc. (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 Investment and Consulting Inc. (formerly known as Sense Media Company Ltd.) on June 3, 2020. Therefore, Sense Investment and Consulting Inc. 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.

(Continued)

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

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.

Except for the following, 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.

(a) Judgment of whether the Group has control over its investees

The Group holds 50.05% outstanding voting shares of Sirius Wireless Pte. Ltd. (Sirius Wireless). The remaining 49.95% shares of Sirius Wireless are concentrated within specific shareholders, with each share's voting right having twice as much as compared to that of the Group. Therefore, it is determined that the Group has only significant influence on Sirius Wireless but not control over it.

(b) Judgment of whether the Group has significant influence on its investees.

The Group holds 16.19% outstanding voting shares of FocalTech Systems Co., Ltd. (FocalTech) and is the largest shareholder of the investee. However, since the Group only obtained one of the nine directors' seats of FocalTech's Board, and it could not proactively participate in FocalTech's policy making processes, plus the fact that, there are no material transactions, interchange of managerial personnel and provision of essential technical information between the Group and FocalTech, therefore, it is determined that the Group has no significant influence over FocalTech. The investment in FocalTech is designated as financial assets at fair value through other comprehensive income since the Group intend to hold this investment for long-term for financial purpose.

(Continued)

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

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>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Cash on hand	\$ 816	869	932
Bank deposits	270,497	762,961	615,679
Time deposits	<u>459,780</u>	<u>2,398,400</u>	<u>1,753,760</u>
	<u><u>\$ 731,093</u></u>	<u><u>3,162,230</u></u>	<u><u>2,370,371</u></u>

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Current:			
Open-end mutual fund	\$ -	62,541	63,923
Non-current:			
Privately offered fund	<u>10,328</u>	<u>5,309</u>	<u>-</u>
	<u><u>\$ 10,328</u></u>	<u><u>67,850</u></u>	<u><u>63,923</u></u>

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Equity instruments at fair value through other comprehensive income:			
Domestic listed common shares	\$ 1,588,108	-	-
Unlisted common shares	<u>231,225</u>	<u>195,216</u>	<u>195,216</u>
	<u><u>\$ 1,819,333</u></u>	<u><u>195,216</u></u>	<u><u>195,216</u></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 financial purposes.

For the nine months ended September 30, 2020, a portion of the Group's investment in financial assets measured at fair value through other comprehensive income was liquidated, resulting in the Group to recognize the loss of \$30,245, which had been reclassified from other equity interest to retained earnings.

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

(Continued)

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

(d) Accounts receivable

	September 30, 2020	December 31, 2019	September 30, 2019
Accounts receivable	\$ 1,007,025	343,682	1,622,173
Less: Allowance for impairment	<u>-</u>	<u>(327)</u>	<u>(338)</u>
	<u>\$ 1,007,025</u>	<u>343,355</u>	<u>1,621,835</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:

	September 30, 2020		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	<u>\$ 1,007,025</u>	0.0001%	<u>-</u>
	December 31, 2019		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
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>
	September 30, 2019		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 1,621,835	0.0001%	-
More than 180 days past due	<u>338</u>	100%	<u>338</u>
	<u>\$ 1,622,173</u>		<u>338</u>

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

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

(Continued)

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

(e) Inventories

	September 30, 2020	December 31, 2019	September 30, 2019
Raw materials	\$ 105,081	404,900	193,346
Work in process	151,784	346,282	200,591
Finished goods	<u>1,551</u>	<u>11,725</u>	<u>240</u>
	<u>\$ 258,416</u>	<u>762,907</u>	<u>394,177</u>

For the three months and nine months ended September 30, 2020 and 2019, the cost of inventories sold, which were included in costs of revenue, amounted to \$1,026,187, \$1,005,005, \$2,691,038 and \$2,692,139, respectively, of which the write-downs of inventories to net realizable value amounted to \$15,308, \$8,474, \$147,409 and \$69,146, respectively.

(f) Other financial assets – current

	September 30, 2020	December 31, 2019	September 30, 2019
Time deposit (with original maturities of between three months and one year)	\$ 642,819	239,840	661,152
Restricted bank deposits	17,749	65,093	10,000
Other receivables	<u>3,767</u>	<u>13,041</u>	<u>23,043</u>
	<u>\$ 664,335</u>	<u>317,974</u>	<u>694,195</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:

	September 30, 2020	December 31, 2019	September 30, 2019
Associates	\$ 25,874	41,058	49,742
Joint ventures	<u>4,970</u>	<u>-</u>	<u>-</u>
	<u>\$ 30,844</u>	<u>41,058</u>	<u>49,742</u>

In the third quarter of 2020, the Group sold its entire investment in Tyrafos Technologies Co., Limited for \$19,530, resulting in the Group to recognize a gain on disposal of \$19,468.

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.

(Continued)

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Attributable to the Group:				
Net income (loss)	\$ (6,672)	(9,337)	(14,832)	(38,395)
Other comprehensive income (loss)	(106)	(62)	(352)	414
Total comprehensive income (loss)	<u>\$ (6,778)</u>	<u>(9,399)</u>	<u>(15,184)</u>	<u>(37,981)</u>

(h) Acquisition of subsidiaries

(i) Acquisition of subsidiary—Sense Investment and Consulting Inc. (Sense Investment)

1) The cost of acquisition

The Group acquired 100% ownership of Sense Investment 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 Investment holds a certain portion of its shares. Also, the Group assumed that Sense Investment will be its holding and investing company for developing its venture capital business.

2) Identifiable net assets acquired in 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 September 30, 2020, the Group incurred a revenue of \$0 and a net loss of \$(67) from Sense Investment. However, if this acquisition had occurred on January 1, 2020, the management estimates that the consolidated revenue and net income after tax from January 1 to September 30, 2020 would have been \$5,026,069 and \$627,582, respectively.

(Continued)

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

(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.

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 in a business combination

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

Purchase consideration:

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

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.

(Continued)

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

4) Pro forma information

From the acquisition date to September 30, 2019, the Group incurred a revenue of \$0 and a net loss of \$(43,049) 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 September 30, 2019 would have been \$5,367,061 and \$647,988, respectively.

(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 September 30, 2020	\$ <u>315</u>	<u>27,740</u>	<u>3,313</u>	<u>53,289</u>	<u>84,657</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 September 30, 2019	\$ <u>872</u>	<u>17,410</u>	<u>5,765</u>	<u>28,429</u>	<u>52,476</u>

There were no significant additions, disposals, or recognition and reversal of impairment losses of property, plant and equipment for the nine months ended September 30, 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	112,071
Disposals	<u>(73,223)</u>
Balance at September 30, 2020	<u>\$ 179,133</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	25,210
Disposals	<u>(13,380)</u>
Balance at September 30, 2019	<u>\$ 126,089</u>
Accumulated depreciation:	
Balance at January 1, 2020	\$ 35,346
Depreciation	30,107
Disposals	<u>(29,523)</u>
Balance at September 30, 2020	<u>\$ 35,930</u>

(Continued)

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

	<u>Buildings</u>
Balance at January 1, 2019	\$ -
Depreciation	28,470
Disposals	<u>(2,783)</u>
Balance at September 30, 2019	<u>\$ 25,687</u>
Carrying amount:	
Balance at September 30, 2020	<u>\$ 143,203</u>
Balance at January 1, 2020	<u>\$ 104,939</u>
Balance at September 30, 2019	<u>\$ 100,402</u>

(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	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,058</u>	<u>7,058</u>
Balance at September 30, 2020	<u>\$ 111,403</u>	<u>25,714</u>	<u>112,078</u>	<u>80,120</u>	<u>329,315</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,978</u>	<u>12,978</u>
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(842)</u>	<u>(842)</u>
Effect of exchange rate changes	<u>-</u>	<u>-</u>	<u>-</u>	<u>13</u>	<u>13</u>
Balance at September 30, 2019	<u>\$ 111,403</u>	<u>25,714</u>	<u>112,078</u>	<u>65,970</u>	<u>315,165</u>
Accumulated amortization and impairment loss:					
Balance at January 1, 2020	\$ -	23,348	37,697	37,720	98,765
Amortization	<u>-</u>	<u>267</u>	<u>10,507</u>	<u>19,507</u>	<u>30,281</u>
Balance at September 30, 2020	<u>\$ -</u>	<u>23,615</u>	<u>48,204</u>	<u>57,227</u>	<u>129,046</u>
Balance at January 1, 2019	\$ -	16,325	23,830	15,933	56,088
Acquisition through business combination	<u>-</u>	<u>-</u>	<u>-</u>	<u>13</u>	<u>13</u>
Amortization	<u>-</u>	<u>5,267</u>	<u>10,364</u>	<u>15,866</u>	<u>31,497</u>
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163)</u>	<u>(163)</u>
Effect of exchange rate changes	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Balance at September 30, 2019	<u>\$ -</u>	<u>21,592</u>	<u>34,194</u>	<u>31,650</u>	<u>87,436</u>
Carrying amount:					
Balance at September 30, 2020	<u>\$ 111,403</u>	<u>2,099</u>	<u>63,874</u>	<u>22,893</u>	<u>200,269</u>
Balance at January 1, 2020	<u>\$ 111,403</u>	<u>2,366</u>	<u>74,381</u>	<u>35,342</u>	<u>223,492</u>
Balance at September 30, 2019	<u>\$ 111,403</u>	<u>4,122</u>	<u>77,884</u>	<u>34,320</u>	<u>227,729</u>

(Continued)

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

(l) Short-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
Secured bank loans	\$ <u>71,844</u>	<u>1,193,486</u>	<u>1,384,315</u>
Unused credit facilities	\$ <u>3,149,756</u>	<u>2,095,594</u>	<u>1,674,165</u>
Interest rate	<u>0.86%~1.29%</u>	<u>1.06%~1.30%</u>	<u>1.06%~1.30%</u>

(m) Long-term debt

	September 30, 2020
Unsecured bank loans	\$ <u>990,000</u>
Unused credit facilities	\$ <u>-</u>
Maturity year	<u>2022~2024</u>
Interest rate	<u>1.49%~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 first half of 2020, the Company's financial ratio was in compliance with the loan agreements.

(n) Lease liabilities

The Group's lease liabilities were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Current	\$ <u>37,957</u>	<u>37,053</u>	<u>35,408</u>
Non-current	\$ <u>108,780</u>	<u>70,204</u>	<u>66,613</u>

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

(Continued)

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

The amounts recognized in profit or loss were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Interest expenses on lease liabilities	\$ <u>500</u>	<u>574</u>	<u>1,426</u>	<u>1,829</u>
Expenses relating to short-term leases	\$ <u>1,013</u>	<u>1,234</u>	<u>2,871</u>	<u>4,127</u>

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

	For the nine months ended September 30	
	2020	2019
Total cash outflow for leases	\$ <u>31,441</u>	<u>32,661</u>

(i) Buildings leases

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

(ii) Other leases

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

(o) Employee benefits

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

For the three months and nine months ended September 30, 2020 and 2019, the Group recognized the pension expenses of \$6,468, \$6,472, \$19,552 and \$18,488, respectively, in relation to the defined contribution plans.

(p) Income taxes

(i) Income tax expense

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Current income tax expense				
Current period	\$ 66,576	86,920	138,370	167,719
Withholding tax in foreign jurisdiction	<u>467</u>	<u>794</u>	<u>1,145</u>	<u>2,201</u>
Income tax expense	\$ <u>67,043</u>	<u>87,714</u>	<u>139,515</u>	<u>169,920</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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- (ii) For the nine months ended September 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 2018 were examined and approved by the R.O.C. income tax authorities.

(q) Capital and other equity

Except for the following disclosures, there was no significant change in capital and other equity for the nine months ended September 30, 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 September 30, 2020, December 31 and September 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 nine months ended September 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	200
Balance at September 30	69,212	68,502

(ii) Capital surplus

	September 30, 2020	December 31, 2019	September 30, 2019
Paid-in capital in excess of par value	\$ 981,682	980,974	915,213
Compensation cost of employee stock options	1,012	1,012	13,091
Restricted stock issued to employees	16,156	17,186	57,645
Treasury share transactions	60,335	40,981	26,954
	\$ 1,059,185	1,040,153	1,012,903

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(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.

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 distribution to shareholders was 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><u>623,536</u></u>	8.09	<u><u>554,844</u></u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(iv) Treasury shares

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

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

- 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	(200)	(200)
Balance at September 30	<u>2,100</u>	<u>2,400</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	(1,137)	-	-
Joint ventures and associates	(352)	-	-
Disposal gain (loss) of investment accounted for using the equity method reclassified to net income	62	-	-
Deferred compensation cost		4,235	
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	-	-	8,269
Disposal of financial assets at fair value through other comprehensive income	-	-	30,245
Balance at September 30, 2020	<u>\$ 934</u>	<u>(910)</u>	<u>(45,310)</u>

(Continued)

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	(792)	-	-
Joint ventures and associates	414	-	-
Deferred compensation cost	-	20,482	-
Unrealized gains (losses) from equity instruments at fair value through other comprehensive income	-	-	(31,022)
Balance at September 30, 2019	<u>\$ 3,557</u>	<u>(10,165)</u>	<u>(83,824)</u>

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

	<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ -	-
Acquisition of subsidiary	8,631	18,609
Equity attributable to non-controlling interest:		
Net loss	(2,909)	(11,508)
Balance at September 30	<u>\$ 5,722</u>	<u>7,101</u>

(r) Share-based payment

(i) Employee stock options

There were no significant changes for employee stock options for the nine months ended September 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 nine months ended September 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	-	-	125.34	(197,000)
Forfeited	-	-	-	-
Outstanding, at September 30	127.18	<u>18,500</u>	100.94	<u>301,000</u>
Exercisable, at September 30	127.18	<u>18,500</u>	100.94	<u>301,000</u>

September 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>	0.09	\$ 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>

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

(Continued)

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

(ii) Restricted stock

There were no significant changes for restricted stock for the nine months ended September 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 (in thousands) was as follows:

	For the nine months ended September 30	
	2020	2019
Balance at January 1	557	563
Forfeited	(6)	-
Balance at September 30	551	563
Accumulated vested shares	(487)	(304)
Unvested shares	64	259

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 and July 10, 2019, the Company each transferred 200 thousand shares to its employees at exercise price of NT\$99.93 per share. The compensation costs were measured at fair value using the difference between the exercise price and the market price of the share at the grant date amounting to NT\$197 and NT\$235 per share, respectively.

(iv) Expenses resulted from share-based payments

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Treasury stock transferred to employees	\$ -	27,014	19,414	27,014
Restricted stock	<u>1,365</u>	<u>6,827</u>	<u>3,823</u>	<u>20,519</u>
	<u>1,365</u>	<u>33,841</u>	<u>23,237</u>	<u>47,533</u>

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

(s) Earnings per share (“EPS”)

(i) Basic earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Net income attributable to the shareholders of the Company	\$ <u>223,687</u>	<u>289,571</u>	<u>628,164</u>	<u>659,612</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>69,212</u>	<u>68,523</u>	<u>69,186</u>	<u>68,343</u>
Basic earnings per share (in New Taiwan Dollars)	<u>\$ 3.23</u>	<u>4.23</u>	<u>9.08</u>	<u>9.65</u>

(ii) Diluted earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Net income attributable to the shareholders of the Company	\$ <u>223,687</u>	<u>289,571</u>	<u>628,164</u>	<u>659,612</u>
Weighted-average number of ordinary shares outstanding (in thousands)	69,212	68,523	69,186	68,343
Effect of diluted potential ordinary shares:				
Stock options	5	199	6	218
Employees compensation	243	268	397	325
Restricted stock	<u>56</u>	<u>200</u>	<u>59</u>	<u>197</u>
Weighted-average shares of ordinary shares outstanding (in thousands) (including effect of dilutive potential ordinary shares)	<u>69,516</u>	<u>69,190</u>	<u>69,648</u>	<u>69,083</u>
Diluted earnings per share (in New Taiwan Dollars)	<u>\$ 3.22</u>	<u>4.19</u>	<u>9.02</u>	<u>9.55</u>

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

(t) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Primary geographical markets:				
Taiwan	\$ 1,987	584	\$ 4,543	4,835
Asia	<u>1,850,625</u>	<u>2,074,829</u>	<u>5,021,526</u>	<u>5,362,226</u>
	<u>\$ 1,852,612</u>	<u>2,075,413</u>	<u>\$ 5,026,069</u>	<u>5,367,061</u>
Major products/ services line:				
Biometric authentication IC sensor and its application	\$ 1,850,625	2,074,829	\$ 5,021,576	5,363,912
Data security protection and its application	1,225	584	3,731	3,089
Non-recurring engineering service revenue	<u>762</u>	<u>-</u>	<u>762</u>	<u>60</u>
	<u>\$ 1,852,612</u>	<u>2,075,413</u>	<u>\$ 5,026,069</u>	<u>5,367,061</u>

(ii) Contract balances

	September 30, 2020	December 31, 2019	September 30, 2019
Accounts receivable	\$ 1,007,025	343,682	1,622,173
Less: Allowance for impairment	<u>-</u>	<u>(327)</u>	<u>(338)</u>
Total	<u>\$ 1,007,025</u>	<u>343,355</u>	<u>1,621,835</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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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months and nine months ended September 30, 2020 and 2019, the Company accrued its remuneration to employees amounting to \$15,440, \$20,016, \$40,816 and \$71,074, respectively, and its remuneration to directors amounting to \$3,088, \$4,003, \$8,163 and \$9,109, 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 September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Interest income from bank deposits	\$ 6,357	22,907	33,224	62,041
Interest income from other receivables	61	-	104	-
	<u>\$ 6,418</u>	<u>22,907</u>	<u>33,328</u>	<u>62,041</u>

(ii) Other income

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Rent income	\$ 71	211	492	546
Dividend income	24,424	-	24,424	-
Others	1,375	4,918	4,152	7,448
	<u>\$ 25,870</u>	<u>5,129</u>	<u>29,068</u>	<u>7,994</u>

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Notes to the Consolidated Financial Statements

(iii) Other gains and losses

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Losses on disposal of property, plant and equipment	\$ (6,260)	(39)	(6,260)	(39)
Losses on disposal of intangible assets	-	(679)	-	(679)
Gains on disposal of investments	19,468	-	19,468	-
Foreign exchange gains (losses), net	(56,904)	(3,976)	(95,253)	38,850
Net gain (loss) on financial assets at fair value through profit or loss	(712)	1,161	(8,552)	2,733
Gain arising from lease modification	-	139	1,744	139
Others	(35)	(1,084)	(4,568)	(1,335)
	<u>\$ (44,443)</u>	<u>(4,478)</u>	<u>(93,421)</u>	<u>39,669</u>

(iv) Finance costs

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Interest expense on bank loans	\$ (7,067)	(5,035)	(16,518)	(12,453)
Lease liabilities	(500)	(574)	(1,426)	(1,829)
	<u>\$ (7,567)</u>	<u>(5,609)</u>	<u>(17,944)</u>	<u>(14,282)</u>

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EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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(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

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets at fair value through profit or loss — current and non-current	\$ 10,328	67,850	63,923
Financial assets at fair value through other comprehensive income	1,819,333	195,216	195,216
Financial assets at amortized cost:			
Cash and cash equivalents	731,093	3,162,230	2,370,371
Accounts receivable, net	1,007,025	343,355	1,621,835
Other receivables from related parties	17,564	-	-
Other financial assets — current and non-current	664,762	318,419	694,639
Refundable deposits	15,408	10,551	10,893
Subtotal	<u>2,435,852</u>	<u>3,834,555</u>	<u>4,697,738</u>
Total	<u>\$ 4,265,513</u>	<u>4,097,621</u>	<u>4,956,877</u>

2) Financial liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
Financial liabilities at amortized cost:			
Short-term borrowings	\$ 71,844	1,193,486	1,384,315
Notes and accounts payable	334,431	561,738	903,517
Accrued expenses	452,976	352,301	632,599
Lease liabilities — current and non-current	146,737	107,257	102,021
Long-term debt	990,000	-	-
	<u>\$ 1,995,988</u>	<u>2,214,782</u>	<u>3,022,452</u>

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of loan agreements. As of September 30, 2020, December 31 and September 30, 2019 the Group had unused credit facilities of \$3,149,756, \$2,095,594 and \$1,674,165, respectively.

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

	Contractual cash flows	Within 1 year	1-5 years	Over 5 years
September 30, 2020				
Short-term borrowings	\$ 72,090	72,090	-	-
Notes and accounts payable	334,431	334,431	-	-
Accrued expenses	452,976	452,976	-	-
Lease liabilities	156,197	38,305	113,928	3,964
Long-term debt	<u>1,047,019</u>	<u>15,206</u>	<u>1,031,813</u>	<u>-</u>
	<u>\$ 2,062,713</u>	<u>913,008</u>	<u>1,145,741</u>	<u>3,964</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	<u>110,617</u>	<u>37,395</u>	<u>73,222</u>	<u>-</u>
	<u>\$ 2,218,859</u>	<u>2,145,637</u>	<u>73,222</u>	<u>-</u>
September 30, 2019				
Short-term borrowings	\$ 1,384,901	1,384,901	-	-
Notes and accounts payable	903,517	903,517	-	-
Accrued expenses	632,599	632,599	-	-
Lease liabilities	<u>105,120</u>	<u>35,729</u>	<u>69,391</u>	<u>-</u>
	<u>\$ 3,026,137</u>	<u>2,956,746</u>	<u>69,391</u>	<u>-</u>

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

(iii) Foreign currency risk

1) Exposure to foreign currency risk

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

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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):

September 30, 2020					
	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	\$ 78,786	29.10	2,292,673	1 %	22,927
<u>Non-Monetary items</u>					
USD	7,796	29.10	226,864	1 %	2,269
<u>Financial liabilities</u>					
USD	25,035	29.10	728,519	1 %	7,285
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
September 30, 2019					
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Change in magnitude of the exchange rate	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 139,014	31.04	4,314,995	1 %	43,150
<u>Non-Monetary items</u>					
USD	8,059	31.04	250,151	1 %	2,502
<u>Financial liabilities</u>					
USD	47,424	31.04	1,472,041	1 %	14,720

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2) Gains or losses on monetary items

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

	For the three months ended September 30			
	2020		2019	
	Foreign exchange gains (losses)	Average exchange rate	Foreign exchange gains (losses)	Average exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (6,638)	29.4487	(18,083)	31.1979
<u>Financial liabilities</u>				
USD:TWD	(50,240)	29.4487	13,504	31.1979
	For the nine months ended September 30			
	2020		2019	
	Foreign exchange gains (losses)	Average exchange rate	Foreign exchange gains (losses)	Average exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (33,550)	29.8027	21,548	31.0618
<u>Financial liabilities</u>				
USD:TWD	(61,710)	29.8027	16,529	31.0618

(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 decrease of 5% in equity prices at each reporting date, the other comprehensive income for the nine months ended September 30, 2020 and 2019 would have increased or decreased by \$90,967 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.

(Continued)

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

	September 30, 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	\$ 10,328	-	-	10,328	10,328
Financial assets at fair value through other comprehensive income—non-current:					
Listed common shares	\$ 1,588,108	1,588,108	-	-	1,588,108
Unlisted common shares	<u>231,225</u>	<u>-</u>	<u>-</u>	<u>231,225</u>	<u>231,225</u>
Subtotal	<u>1,819,333</u>	<u>1,588,108</u>	<u>-</u>	<u>231,225</u>	<u>1,819,333</u>
	<u>\$ 1,829,661</u>	<u>1,588,108</u>	<u>-</u>	<u>241,553</u>	<u>1,829,661</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	<u>195,216</u>	<u>-</u>	<u>-</u>	<u>195,216</u>	<u>195,216</u>
	<u>\$ 263,066</u>	<u>62,541</u>	<u>-</u>	<u>200,525</u>	<u>263,066</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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	September 30, 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	\$ 63,923	63,923	-	-	63,923
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>\$ 259,139</u>	<u>63,923</u>	<u>-</u>	<u>195,216</u>	<u>259,139</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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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%) Price-Book ratio (3.90~4.29, 3.87~5.80 and 3.98~4.23 on September 30, 2020, December 31 and September 30, 2019, respectively)	The estimated fair value would decrease if the discount for lack of marketability was higher 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>
September 30, 2020				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,688	(1,688)
December 31, 2019				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,522	(1,522)
September 30, 2019				
Equity investments measured at fair value through other comprehensive income	Price-Book ratio	1%	1,240	(1,240)

(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.

(vi) Transfer between fair value levels

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

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

	For the three months ended September 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	\$ 9,534	231,225	-	195,216
Total gains or losses:				
Recognized in profit or loss	(472)	-	-	-
Additions	1,266	-	-	-
Ending Balance	<u>\$ 10,328</u>	<u>231,225</u>	<u>-</u>	<u>195,216</u>

	For the nine months ended September 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	(182)	-	-	-
Recognized in other comprehensive income	-	(24,611)	-	(31,022)
Additions	5,201	60,620	-	185,205
Ending Balance	<u>\$ 10,328</u>	<u>231,225</u>	<u>-</u>	<u>195,216</u>

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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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 Additions to lease liabilities</u>	<u>September 30, 2020</u>
Short-term borrowings	\$ 1,193,486	(1,121,642)	-	71,844
Long-term debt	-	990,000	-	990,000
Lease liabilities	<u>107,257</u>	<u>(27,144)</u>	<u>66,624</u>	<u>146,737</u>
Total amount of liabilities from financing activities	<u>\$ 1,300,743</u>	<u>(158,786)</u>	<u>66,624</u>	<u>1,208,581</u>

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

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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.

Name of related party	Relationship with the Group
Sirius Wireless Pte. Ltd.	Associates

(b) Significant transactions with related parties

(i) Other receivables – related parties (loans)

Account	Related-party categories	September 30, 2020	December 31, 2019	September 30, 2019
Other receivables – loan	Associates	\$ 17,460	-	-
Other receivables – interest	Associates	104	-	-
		\$ 17,564	-	-

The Group loaned to the associate— Sirius Wireless Pte. Ltd. with the interest rate of 1.050%~2.537%. As of September 30, 2020, there was no expected credit loss after the management's assessment. For the three months and nine months ended September 30, 2020 and 2019, the interest income amounted to \$61 and \$104, respectively.

(c) Compensation for key management personnel

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 27,641	38,274	79,221	71,375
Post-employment benefits	252	259	782	716
Share-based payments	226	30,858	20,091	38,549
	\$ 28,119	69,391	100,094	110,640

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>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 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	17,749	55,093	-
Other financial assets—non- current (time deposits)	Performance guarantee	427	445	444
		<u>\$ 18,176</u>	<u>65,538</u>	<u>10,444</u>

9. Significant commitments and contingencies

- (a) 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 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.
- (b) Shenzhen Goodix Technology Co., Ltd. (Goodix) has filed a 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 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.

10. Significant loss from casualty: None.

11. Significant subsequent Events: None.

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Notes to the Consolidated Financial Statements

12. Other

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

By item	By function	For the three months ended September 30, 2020			For the three months ended September 30, 2019		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
	Salaries	-	222,283	222,283	-	256,090	256,090
	Labor and health insurance	-	10,009	10,009	-	9,076	9,076
	Pension	-	6,468	6,468	-	6,472	6,472
	Other employees benefits	-	10,348	10,348	-	10,141	10,141
	Depreciation	693	19,209	19,902	693	14,968	15,661
	Amortization	-	10,128	10,128	-	10,689	10,689

By item	By function	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
	Salaries	-	681,239	681,239	-	643,060	643,060
	Labor and health insurances	-	31,628	31,628	-	26,358	26,358
	Pension	-	19,552	19,552	-	18,488	18,488
	Other employees' benefits	-	24,890	24,890	-	25,639	25,639
	Depreciation	2,080	54,164	56,244	2,080	41,974	44,054
	Amortization	-	30,281	30,281	-	31,497	31,497

(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 nine months ended September 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	17,694	17,460	17,460	1.05% ~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 Guarantees 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)	116,400	108,245	-	4.07 %	1,428,839 (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.

(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			Fair value	Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)		
The Company	Gingy Technology Inc.	-	Financial assets at fair value through other comprehensive income	314	3,988	1.86 %	3,988	
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	2.88 %	43,552	
The Company	Vertex Growth (SG) LP	-	Financial assets at fair value through profit or loss – non-current	-	9,691	-	9,691	

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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	Vertex Ventures (SG) SEA IV LP	-	Financial assets at fair value through profit or loss – non-current	-	637	-	637	
The Company	FocalTech Systems Co., Ltd	-	Financial assets at fair value through other comprehensive income	48,516	1,586,473	16.17 %	1,586,473	
Sense Investment and Consulting Inc.	FocalTech Systems Co., Ltd	-	Financial assets at fair value through other comprehensive income	50	1,635	0.02 %	1,635	

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

(In Thousands of New Taiwan Dollars and US Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counterparty	Nature of Relationship	Beginning Balance		Acquisitions		Disposal			Ending Balance		
					Shares/Units (in thousands)	Amount	Shares/Units (in thousands)	Amount	Shares/Units (in thousands)	Amount	Carrying Value	Gain(Loss) on Disposal	Shares/Units (in 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	1,586,473

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.

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the nine months ended September 30, 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 September 30, 2020			Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				September 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 %	(409)	(14,246)	(14,246)	Parent/subsidiary
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	4,513	352	352	Parent/subsidiary
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	18,233	18,233	20	100.00 %	25,600	2,287	2,287	Parent/subsidiary
The Company	Tyrafos Technologies Co., Limited	Hong Kong	Technology development	-	19,517	-	- %	-	-	-	Joint venture
The Company	Igistec Co., Ltd.	Taiwan	Technology development	59,497	59,497	16,527	74.69 %	21,464	(8,934)	(8,588)	Parent/subsidiary
The Company	Sirius Wireless Pte. Ltd.	Singapore	Technology development	61,760	61,760	40,080	50.05 %	25,874	(27,820)	(14,832)	Associates
The Company	Sense Investment and Consulting Inc.	Taiwan	Investment and holding activity	1,880	-	167	100.00 %	1,702	67	67	Parent/subsidiary
The Company	Vitrio Technology Corporation	Taiwan	Technology development	4,970	-	142	50.00 %	4,970	-	-	Joint venture

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.

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14. Segment information

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