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Egis Technology Inc.

2017 Annual Report

Prepared by Egis Technology Inc.

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1. Company's Spokesperson

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Position: Chief Financial Officer

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2. Acting Spokesperson

Name: Gong-Yi Lin

Position: Chief Operating Officer

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3. Addresses and Contact Numbers of Headquarters, Branch Companies and Factories

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Telephone: (02) 2658-9768

Addresses and Contact Numbers of Branch Companies: Nil

Addresses and Contact Numbers of Factories: Nil

4. Stock Transfer Agencies

Name: Stock Service Department of Yuanta Securities Co., Ltd.

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Telephone: (02) 2586-5859

5. Certified Public Accountants Responsible for Audit and Certification of the Last Fiscal Year's Financial Statements

Name of Certified Public Accountant: Certified Public Accountants Steven Shih and Philip Tang

Name of Accounting Firm: KPMG Taiwan

Address: 68F, No. 7, Section 5, Xinyi Road, Taipei City (Taipei 101 Building)

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6. Names of Exchanges where the Company's Securities are Traded Offshore, and the Method for Accessing Information on the said Offshore Securities: Nil

7. Website of the Company: <http://www.egistec.com>

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I. Report to Shareholders

Dear Shareholders,

The 2017 Business Achievements and 2017 Business Plan are provided as follows:

1. 2017 Business Achievements

(1) 2017 Business Plan Implementation Achievements

The consolidated operating income of the company for 2017 totaled NTD4,731,908,000, an increase of NTD3,058,640,000 over 2016, with a growth rate of 183%. The pre-tax net profit was NTD735,886,000, and the net profit after tax was NTD593,191,000. The consolidated net profit for the current period was NTD 590,583,000.

Unit: NTD Thousands

Item	2016	2017
Operating revenue	1,673,268	4,731,908
Gross operating profit	755,801	1,822,175
Net operating profit (loss)	136,019	776,643
Non-operating revenue and expenditure	22,733	(40,757)
Net profit (loss) before tax	158,752	735,886
Net profit (loss) after tax	114,026	593,191
Total comprehensive income for the current period	114,707	590,583
Basic earnings per share (NTD)	1.66	8.50

(2) Status of Budget Implementation

The financial forecast for 2017 was not disclosed by the company.

(3) Analysis of Financial Revenue and Expenditure and Profitability

Item		2016	2017
Financial Structure	Liabilities to assets ratio (%)	37.50	37.59
	Permanent capital to property, plant and equipment ratio (%)	6,531.60	6,706.80
Solvency	Current ratio (%)	232.49	237.53
	Quick ratio (%)	168.75	181.46
Profitability	Return on assets (%)	5.68	19.63
	Return on equity (%)	7.84	31.04
	Pure rate of return (%)	6.81	12.54
	Earnings per share (NTD)	1.66	8.50

(4) Status of Research and Development

Items	Research and Development Plan	Description of Plan
Algorithm	G3 matching algorithm	The G3 fingerprint matching algorithm can extract a large number of fingerprint feature points on a very small area of the image to optimize recognition efficiency and reliability performance. It has been applied to the newly-marketed flagship mobile phones of major customers.
	Swipe enroll/touch verify	The innovative swipe type fingerprint registration algorithm can capture 20 fingerprint images in a single swipe. Compared with the previous push-type registration, in which the user must press the finger 20 times or so to capture the complete fingerprint feature, the swipe type fingerprint registration not only significantly improves the user experience, but also maintains an excellent fingerprint recognition performance. The major customers have adopted this feature in the newly-marketed flagship mobile phones.
Hardware Product	ET5XX series	Capacitive fingerprint identification chip series can be applied under the cover of 100um~150um thickness with optimized cost structure.
	ET6XX series	Capacitive fingerprint identification chip series can be applied under the cover of 200um~300um thickness with optimized sensing perceptiveness.
	ET7XX series	The optical fingerprint identification chip series can be applied under the glass cover of 700um~1,400um thickness. In response to the trend of the latest full-screen mobile phones, it provides a fingerprint identification under the screen.

	3D Face ID	A facial recognition proposal based on 3D sensing technology such as structured light and time of flight.
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2. Overview of 2018 Business Plan

(1) Operational Strategy

In response to the growing biometrics and the growing application, the company is committed to boosting the technological advancement of capacitive fingerprint and promoting the multiple applications of fingerprint chips, further investing in optical fingerprint recognition, face ID, Iris Recognition, and other technical research and development. All of these aim to maintain the company's technological leadership in the field of biometrics; and to expand the emerging applications of biometric identification in various industries, including smartphones, mobile devices, financial payments, automotive electronics, etc. This will be the main business direction of the company, with the goal of expanding the market territory and becoming the market leader.

(2) Expected Sales Volume and its Basis

The company's total revenue of 2017 was NTD 4.731 billion, a growth rate of multiples, which sets a new record. In 2018, in addition to the continuous growth of existing customers and the expansion of fingerprint chip application into the flagship models, the new customers of the major mobile phone brands in the mainland have also made progress. The company will be shipping gradually this year. Thus, it is expected that the company's operations this year will grow in double digits and continue to expand the global market share of fingerprint identification chip products.

(3) Production and Sales Policies

In response to the continuous increase in demands by customers from different markets, strengthening the management and control of cost and the management of inventory are important for production and sales management this year. Therefore, the estimation of the production capacity of fabs, and the confirmation of production and sales time will continue to be strengthened. In addition, the management of the entire supply chain, the certification of second-party manufacturers and new suppliers will continue to be carried out to ensure improvement of the quality of supply and a stable supply source. It can also optimize cost structure and enhance market competitiveness.

3. Future Development Strategy of the Company

- (1) Short-term
 - (1) In the area of hardware development: Strengthen cooperation with customers. At the same time, the integration of software resources and engineering test field support should also comply with customer requirements. Therefore, continuous improvement is required in the recruitment and development of new engineering personnel.
 - (2) In the area of process improvement: Work closely with wafer fabrication plants to achieve the objective of lowering cost by adopting more efficient methods.
 - (3) In the area of new product development: Confirm specifications and pre-development implementation plans with customers as soon as possible.
- (2) Long-term
 - (1) Strengthen the core competitiveness of product design and better understand and more rapidly grasp market trends.
 - (2) Investment in new products and new technologies will accelerate the timeline for product introduction through market acquisitions or the introduction of new teams.
 - (3) Solutions for various innovative biometrics will be developed together with strategic partners to grasp business opportunities while reducing R&D risks.

4. Impact of External Competitive Environment, Legal Environment and Overall Business Environment

Since the introduction of fingerprint recognition by Apple in the iPhone 5S, the rapid development of fingerprint identification in smartphone applications has become a basic device for middle- and high-end smartphones. In 2017, the shipment volume of smartphones equipped with fingerprint sensors reached 920 million in the world. The penetration rate was about 64%. It is estimated that by 2020, the shipment of smartphones equipped with fingerprint sensors will reach 1.25 billion, and the penetration rate will exceed 75%. (Source: DIGITIMES Research)

In addition to smartphones, fingerprint identification is a huge opportunity for multiple applications in mobile devices, mobile payments, automotive electronics, financial smart cards and so on. With the rapid development and growth of applications, the market competition for fingerprint identification has become increasingly fierce. The Swedish manufacturer Fingerprint Cards (FPC), which previously took the lead, faced ASP (average sales price) decline and the operating profit rate has plummeted; it is estimated that its 2017 revenue will drop by 53% compared with 2016. Relatively, Mediatek's reinvested mainland company Shenzhen Goodix, is expected to surpass FPC to become the world's largest supplier of fingerprint sensors with a forecasted revenue growth of 25% in 2017.

The Company has been cultivating the fingerprint recognition industry for many years; it adopted a passive capacitive-sensing principle and has ~~an~~ independently developed algorithms. The Company has more than one hundred fingerprint identification patents upstream and downstream, and is an important niche for products and technology. With strong R&D capabilities, the Company has become one of the leading companies in the market. How to maintain the Company's competitive advantage will become an important factor in the next phase of biometric identification.

Looking ahead and watching the global trend, full screen mobile phone shipments will exceed 100 million in 2017. It will grow to nearly 900 million in 2018, and global penetration will reach 61%. In response to the development trend of the full screen, the fingerprint identification under the screen can increase the aspect ratio of screens, and all manufacturers are eager to invest in R&D. Based on the long-term accumulated fingerprint identification capabilities, the Company recruited new R&D teams and technology partners to develop optical fingerprint identification chips, and have made significant progress. At the same time, the company has cooperated with customers to import fingerprint recognition solutions under the screen to customers' products.

In addition, the trend of 3D facial recognition is set to rise with the launch of Apple's iPhone X in 2017. It is expected that Android mobile phones will also rush to join the face recognition unlock and payment function. However, there are still security concerns ~~on~~ regarding facial recognition. The market believes that the application scenarios required for future financial or other security ~~rigor~~ purposes are likely to result in the coexistence of face, fingerprint, iris, or password. In response to this trend, the Company has also launched face recognition R&D including 3D sensing technology, as well as an iris recognition solution, while at the same time a more cost-efficient chip solution than the existing market technology, which will facilitate the introduction of product applications for customers and accelerate time to market.

The Company's biometric wafer product line will continue to evolve with process development, high resolution, high recognition rate, and multi-standard development. It will develop new applications in line with customer needs, expand application areas, and maintain the company's long-term industrial competitiveness. In the future, together with upstream and downstream manufactures, the Company will develop products with an effort to protect the environment and reduce its carbon footprint to fulfill corporate social responsibility

Chairman: Sen-Chou, Lo

General Manager: Sen-Chou, Lo

II. Company Profile

1. Date of Establishment: December 26, 2007

2. Company History

December 2007	The Company was named as Taxxtron International Corporation, with a registered capital of NTD 1,000,000, and paid-in capital of NTD 1,000,000.
January 2008	The Company conducted a capital injection of NTD 128,000,000 in cash, and its paid-in capital after the capital injection was NTD 129,000,000.
February 2008	The Company acquired the main business and assets of Ching Hu Technology Corporation that mainly engaged in the development and sales of fingerprint recognition application software.
April 2008	The Company was merged with Egis International Inc, setting the merger date as April 1, 2008. The Company issued new shares of NTD 51,000,000 for capital injection upon the merger, and its paid-in capital after the capital injection was NTD 180,000,000. It was renamed as Egis Technology Inc.
May 2008	The Company acquired Egis Inc. and its subsidiaries. Egis Inc. and its subsidiaries mainly engaged in the development and sales of security software. The Company conducted a capital injection of NTD 180,500,000 in cash, and its paid-in capital after the capital injection was NTD 360,500,000. The Company conducted a capital reduction of NTD 164,000,000 and its paid-in capital after the capital reduction was NTD 196,500,000. The Company conducted a capital injection of NTD 164,000,000 through a transfer from capital reserves, and its paid-in capital after the capital injection was NTD 360,500,000.
July 2008	The Company conducted a capital injection of NTD 12,000,000 in cash, and its paid-in capital after the capital injection was NTD 372,500,000. The Company acquired LighTuning Technology Inc., setting the merger date as July 19, 2008. LighTuning Technology Inc. mainly engaged in the development and sales of biometric hardware. The Company issued new shares of NTD 123,799,000 for capital injection upon the merger, and the paid-in capital after the capital injection was NTD 496,299,000.
August 2009	A subsidiary company, Egis Technology (Japan) Inc., was established in Japan.
July 2010	Employees exercised stock warrants of NTD 384,000, and the paid-in capital

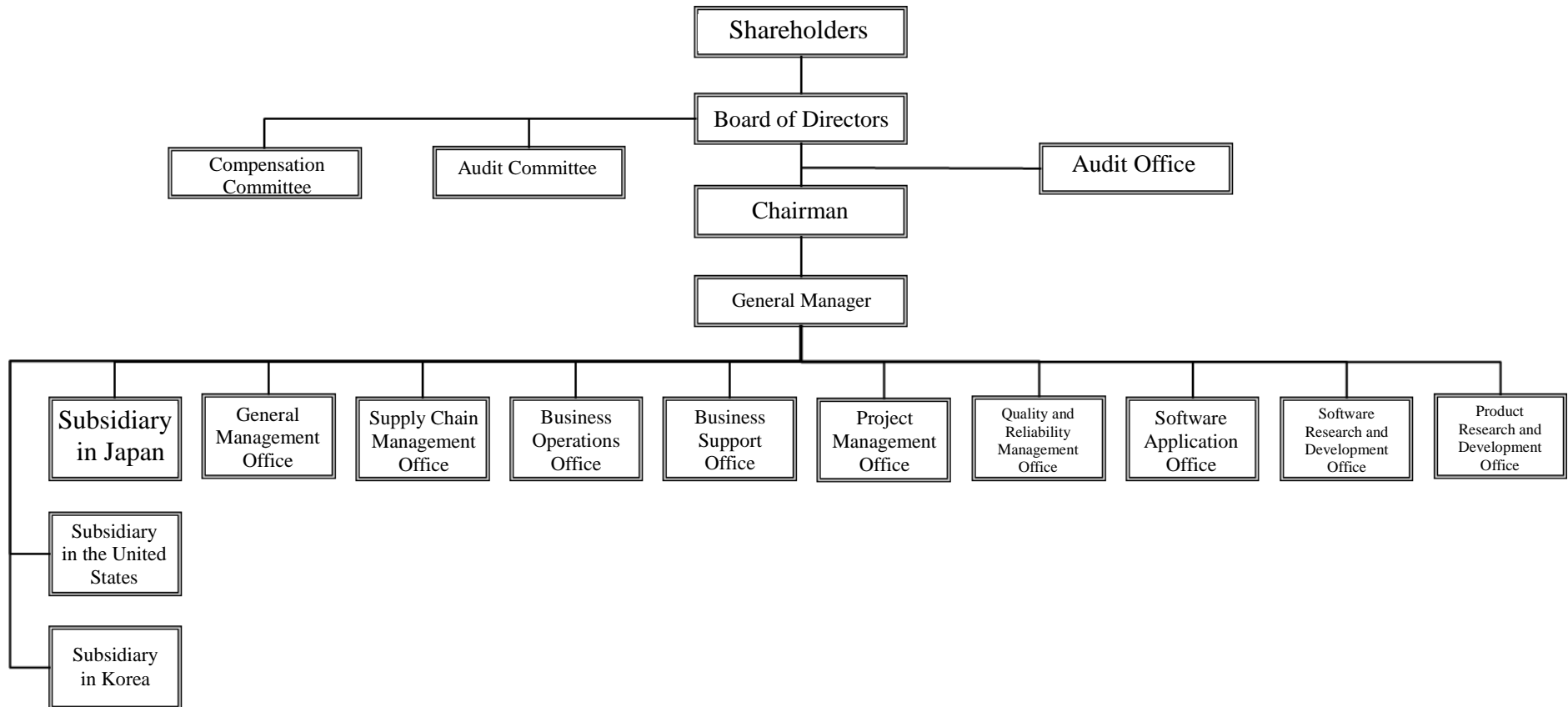
	after the capital injection was NTD 496,683,000.
December 2013	Employees exercised stock warrants of NTD 25,810,000, and the paid-in capital after the capital injection was NTD 522,493,000.
February 2014	The Company conducted a capital injection of NTD 88,000,000 in cash, and its paid-in capital after the capital injection was NTD 610,493,000.
April 2014	Employees exercised stock warrants of NTD 9,950,000, and the paid-in capital after the capital injection was NTD 620,443,000.
May 2014	The Company declared the public offering of shares and employee stock warrants.
June 2014	The Taipei Exchange approved the listing on the emerging stock market.
August 2014	Employees exercised stock warrants of NTD 200,000, and the paid-in capital after the capital injection was NTD 620,643,000.
December 2014	Employees exercised stock warrants of NTD 850,000, and the paid-in capital after the capital injection was NTD 621,493,000.
March 2015	Employees exercised stock warrants of NTD 50,000, and the paid-in capital after the capital injection was NTD 621,543,000.
April 2015	The “Opinions Regarding the Successful Development and Marketability of Products or Technologies Under Application by Technology Enterprises” was issued by the Industrial Development Bureau, Ministry of Economic Affairs and the letter issued by the Taipei Exchange was obtained.
July 2015	The Company was appointed as the board member of FIDO (Fast IDentity Online) Alliance, and attended the World Action Conference (Shanghai) in the name of FIDO Alliance.
September 2015	Employees exercised stock warrants of NTD 240,000, and the paid-in capital after the capital injection was NTD 621,783,000.
December 2015	The Company conducted a capital injection of NTD 62,910,000 in cash, and its paid-in capital after the capital injection was NTD 684,693,000. The Company was officially listed over-the-counter on Taipei Exchange.
January 2016	The Company conducted a capital injection of NTD 62,910,000 in cash, and its paid-in capital after the capital injection was NTD 684,693,000.
April 2016	Employees exercised stock warrants of NTD 2,950,000, and the paid-in capital after the capital injection was NTD 687,643,000.
August 2016	Employees exercised stock warrants of NTD 750,000, and the paid-in capital after the capital injection was NTD 688,393,000.
March 2017	Employees exercised stock warrants of NTD 8,385,000, and the paid-in capital after the capital injection was NTD 696,778,000.
August 2017	Employees exercised stock warrants of NTD 1,700,000, and the paid-in capital

	after the capital injection was NTD 698,478,000.
November 2017	A subsidiary company, Egis Technology (Korea) Inc., was established in Korea.
December 2017	Employees exercised stock warrants of NTD 710,000. The Company issued the new limited employee stock of NTD 5,720,000 and the paid-in capital after the capital injection was NTD 704,908,000.
December 2017	The Company ranked No.9 in Asia-Pacific area and No.1 in Taiwan among Top 500 high-tech, high-growth companies of Asia-Pacific Deloitte, according to the evaluation of Deloitte Accounting Firm.
December 2017	Employees exercised stock warrants of NTD 710,000. The Company issued the new limited employee stock of NTD 5,720,000 and the paid-in capital after the capital injection was NTD 704,908,000.
March 2018	Employees exercised stock warrants of NTD 489,500, and the paid-in capital after the capital injection was NTD 709,803,000.

III. Corporate Governance Report

1. Organization System

(1) Organizational Structure of Corporation



(2) Business Operations of Major Departments

Department	Job Description
Audit Office	Audit, assess, study and formulate the internal controls of the company and provide areas for improvement and suggestions, so as to enhance business efficiency and effective implementation of internal controls.
General Manager	<p>Responsible for overall operation, planning and implementation of the company.</p> <p>Development and implementation of long-term operation strategy of the company.</p> <p>Establishment of the system and supervision of the operation of the departments.</p> <p>Be directly responsible to the Board of Directors.</p>
Subsidiary in Japan	Business promotion in Japan.
Subsidiary in the United States	Research and development of IC and hardware.
Subsidiary in Korea	Business promotion in Korea.
General Management Office	Responsible for the integration of all financial, accounting, information, legal and patent matters, general affairs and human resources of the Company.
Supply Chain Management Office	<p>Arrangement of mass production capacity, management of delivery schedule, production-marketing coordination, material planning and production cost control.</p> <p>Management of outsourced production and warehouse.</p>
Business Operations Office	Market development, formulation of strategies, customer relationship management and the development of new products.
Business Support Office	Support and integrate production-marketing coordination, follow-up on issues reflected by customers and improve customer satisfaction.
Project Management Office	Carry out internal planning/management/integration/schedule control, deal with customers and meet customers' needs.
Quality and Reliability Management Office	<p>Verification and guarantee of product quality. Assist in the reliability test of product development and failure analysis.</p> <p>Evaluation, quality supervision and exception handling of outsourced manufacturers.</p> <p>Handle customer complaints and provide customer problem analysis report.</p> <p>Document Control. Maintain and promote the quality system/activities.</p>

Department	Job Description
Software Application Office	Development of SDK. Application of SDK to products specified by customers in accordance with customer requirements.
Software Research and Development Office	Development of algorithms. Development of drivers. Development of cloud servers. Drafting of technical documents.
Product Research and Development Office	Research and development of IC and hardware. New technology development, import and improvement of processes. Upgrade engineering capability; solve technical problems related to product.

II. Information of Directors, Supervisors, General Managers, Deputy General Managers, Associates and Managers of Various Departments and Branch Organizations

(1) Information about Directors

1. Name, Work (Educational) Experience, Shareholding and Nature of Director

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Chairman	Sen-Chou Lo	Male	Republic of China	08/05/2008	06/22/2017	3	2,920,000	4.18	2,920,000	4.11	-	-	5,360,426	7.55	President of Intervideo Inc. in the United States Bachelor of Computer Science, Soochow University California State University Chico MSCS, USA National University MBA, San Jose, USA	General Manager of the Company Chairman of IvyRock Asset Management Consulting Co., Ltd. Director of HEADWAY CAPITAL LIMITED Director of ORIENTAL GOLD HOLDINGS LIMITED	Director	Shih-Hao Ro	Father and Son

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Juristic Person Director of Gingy Technology Inc.			
Director	Chen-Jung Shih	Male	Republic of China	10/17/2014	06/22/2017	3	-	-	-	-	-	-	-	-	Honorary Doctor of International Law, Thunderbird International Management Institute Honorary Fellowship of the University of Wales Honorary Doctor of Science and Technology, Hong Kong Polytechnic University Honorary Doctor of Engineering, National Chiao Tung University Master of Electronic Engineering, National Chiao Tung University Founder and Chairman of Acer Group	Director of Acer Inc. Independent Director of Taiwan Semiconductor Manufacturing Company, Limited Director of Wistron Corporation Director of Nan Shan Life Insurance Co., Ltd. Director of Qisda Corporation Juristic Person	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Director of Hung Jung Investment Co., Ltd. Director of Idealive International Co. Ltd. Corporate Director of iD Innovation Inc. Chairman of Dragon Investment Fund I Co., Ltd. Director of DIGITIMES Inc. Director of Taiwan Public Television Service Foundation			

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Chairman of Stans Foundation Director of the Company Director of Chinese Television System Corporation			
Director	Ming-To Yu	Male	Republic of China	10/17/2014	06/22/2017	3	-	-	-	-	-	-	-	-	Master of Public Administration, National Chengchi University Master of Business Administration, Wharton School of the University of Pennsylvania Financial Manager of Taiwan Semiconductor Manufacturing Company, Limited Chief Financial Officer and	Juristic Person Director of Kaiyu Consulting Co. Ltd. Independent Director of eMemory Technology Inc.	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
															Spokesperson of MediaTek Inc. Chief Financial Officer of Beijing Xiaomi Technology Co., Ltd.				
Director	HEADWAY CAPITAL LIMITED	Not applicable	British Virgin Islands	10/17/2014	06/22/2017	3	2,700,000	3.87	2,700,000	3.80	-	-	-	-	-	-	-	-	-
	Representative Gong-Yi Lin	Male	Republic of China	10/17/2014	06/22/2017	3	425,000	0.61	600,000	0.85	-	-	-	-	Institute of Electronics, National Chiao Tung University Director of Chip Design Consultant Group of Synopsys for Asia Region	Juristic Person Director of Evershine BPO Service Corporation Juristic Person Director Representative of	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Integrated Digital Technologies, Inc.			
Representative	Yi-Pin, Lee	Male	Republic of China	06/22/2017	06/22/2017	3	-	-	58,600	0.08	-	-	-	-	Central Missouri State University MBA Department of Economics, Chung Hsing University Chief Financial Officer of Primax Electronics Ltd. Chief Financial Officer of DaStrong Corporation Chief Financial Officer of Central Corporation Chief Financial Officer of Taihong Semiconductor Company Manager of Acer Inc.	Chief Financial Officer of the Company	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Director	Shih-Hao Ro	Male	United States	06/22/2017	06/22/2017	3	30,000	0.04	34,000	0.09					University of California, Riverside Business Manager and Vice General Manager of Egis Technology Inc. SBI & Capital 22 Mizuho Securities Asia Ltd	Vice General Manager of the Company	Chairman	Sen-Chou-Lo	Father and son
Independent Director	Fu-Chan, Wei (Note 1)	Male	Republic of China	10/17/2014	10/17/2014	3	-	-	-	-	-	-	-	-	Bachelor of Medicine, Kaohsiung Medical College Researcher at University of Toronto Researcher at University of Louisville President of Taiwan Academy of Facial Plastic and Reconstruction Surgery Director of Department of Plastic Surgery, Chang Gung Memorial Hospital Secretary-General of International Society for Reconstructive Microsurgery	Professor in Surgery, College of Medicine, Chang Gung University Consultant-level Attending Physician at Taipei Chang Gung Memorial Hospital Juristic Person Director of Formosa Plastics Corporation	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
															President of Taiwan Society for Surgery of the Hand Deputy Superintendent of Linkou Chang Gung Memorial Hospital President of International Microsurgery Society President of World Society for Reconstructive Microsurgery Dean of College of Medicine, Chang Gung University Deputy Secretary-General of International Confederation for Plastic, Reconstructive and Aesthetic Surgery	Academian of Academia Sinica International Associate Editor of Journal of Plastic and Reconstructive Surgery			
Independent Director	Ming-Jung Weng	Male	Republic of China	10/17/2014	06/22/2017	3	23,000	0.03	23,000	0.03	-	-	-	-	Bachelor of Business Administration, Department of Business, National Taiwan University College of Law General Manager of Smith Barney Shearson, Inc. Person-in-charge of Lehman	Director of Lion Travel Service Co., Ltd. Independent Director of TPK Holding Co., Ltd. Independent	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
															Brothers Securities Taiwan Ltd. General Manager of Nomura International (Hong Kong) Limited, Taipei Branch	Director of Clientron Corporation			
Independent Director	Ding-Jung Lu	Male	Republic of China	10/17/2014	06/22/2017	3	-	-	-	-	-	-	-	-	Master's Degree from the Institute of Electronics, National Chiao Tung University Executive Deputy General Manager of MediaTek Inc.	Independent Director of Leadtrend Technology Corporation	-	-	-
Independent Director	Ta-Lun Huang	Male	Republic of China	06/22/2017	06/22/2017	3	-	-	-	-	-	-	-	-	Master's Degree from University of Michigan -- Ann Arbor Partner of AsiaVest Partners, TCW/YFY Ltd.	Chairman of GCS Holdings, Inc. Juristic Person Director of Global Device Technologies, Co., Ltd. Director of Parade Technologies, Ltd.	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Date of First Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Director of Amulair Thermal Technology, Inc.			

(Note 1) Dismissed on June 22, 2017

2. Principal Shareholder of the Juristic Person Shareholder

2. April 1, 2018

Name of Juristic Person Shareholder	Principal Shareholder of the Juristic Person Shareholder	Shareholding Ratio
HEADWAY CAPITAL LIMITED	Sen-Chou Lo	100.00%

The principal shareholder of the juristic person shareholder is the principal shareholder of a juristic person: Nil.

3. Professional Knowledge and Independence of Directors

Name	Criteria	Whether He/She has over Five Years of Work Experience and the Following Professional Qualifications	Compliance with Independence										The Number of Concurrent Independent Directors of Other Public Companies	
		A Lecturer or Above in the Department of Commerce, Law, Finance, Accounting or Other Departments Related to the Company's Business in a Public or Private Tertiary Institution	A Judge, Prosecutor, Attorney, Accountant or Other Professional and Technical Specialist who Has Passed a National Examination and has been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Area of Commerce, Law, Finance, Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		9
Sen-Chou, Lo		✓				✓	✓	✓	✓	✓	✓	✓	✓	
Chen-Jung Shih		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Ming-To Yu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
HEADWAY CAPITAL LIMITED Representative of juristic person - Gong-Yi Lin		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
HEADWAY CAPITAL LIMITED Representative of juristic person - Yi-Pin, Lee		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Shih-Hao Ro		✓		✓	✓		✓	✓	✓	✓	✓	✓		
Fu-Chan, Wei(note1)	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Ming-Jung Weng		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Ding- Jung Lu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Ta-Lun Huang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

(Note 1) Dismissed on June 22, 2017

Note2: Please check “✓” in the blanks of the various criteria codes below if the various directors and supervisors meet the following criteria two years before first appointment or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of any affiliates of the Company (but independent directors of the Company, its parent company, or its subsidiary company in which the Company directly or indirectly holds more than fifty percent (50%) of the voting shares shall not be subject to this restriction).
- (3) A natural person shareholder who does not hold shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of

one percent (1%) or more of the total shares issued by the Company, or does not rank among the top ten in terms of shares held.

- (4) Not the spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor or employee of a juristic person shareholder that directly holds five percent (5%) or more of the total shares issued by the Company, or ranks among the top five juristic person shareholders in terms of shares held.
- (6) Not a director (Director), supervisor (Supervisor), manager or shareholder holding five percent or more of the shares of a specific company or institution with financial or business dealings with the Company.
- (7) Not a professional or a business owner, partner, director (Director), supervisor (Supervisor) or manager of a sole proprietorship, partnership, company or institution providing commercial, legal, financial, accounting and other services or consultation to the Company or its affiliates, or the spouse of the said persons. However, members of the Remuneration Committee performing their duties according to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter shall not be subject to this restriction.
- (8) Not a spouse or relative within the second degree of kinship of other directors.
- (9) Has not been involved in the various circumstances stipulated in Article 30 of the Company Act.
- (10) Has not been elected in the capacity of the government, juristic person or its representative in accordance with Article 27 of the Company Act.

(2) Information about General Managers, Deputy General Managers, Associates and the Managers of Various Departments and Branch Organizations

April 1, 2018; Unit: Shares; %

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
General Manager	Sen-Chou, Lo	Male	Republic of China	03/14/2014	2,920,000	4.24	-	-	5,360,426	7.55	President of Intervideo Inc. in the United States Bachelor of Computer Science, Soochow University California State University Chico MSCS, USA National University MBA, San Jose, USA	Chairman of IvyRock Asset Management Consulting Co., Ltd. Director of HEADWAY CAPITAL LIMITED Director of ORIENTAL GOLD HOLDINGS LIMITED Juristic Person Director of Giny Technology Inc.	Director	Shih-Hao	Father and Son

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Chief Operating Officer	Gong-Yi Lin	Male	Republic of China	03/14/2014	600,000	0.85	-	-	-	-	Institute of Electronics, National Chiao Tung University Director of Chip Design Consultant Group of Synopsys for Asia Region	Juristic Person Director of Evershine BPO Service Corporation Juristic Person Director Representative of Integrated Digital Technologies, Inc.	-	-	-
Deputy General Manager	Su Jie Bin	Male	Republic of China	02/01/2008	134,000	0.19	-	-	-	-	Institute of Management of Technology, National Chiao Tung University Deputy General Manager of the Business Department of Ching Hu Technology Corporation	Egis Technology (Japan) Inc. Director Egis Tec USA Inc. Director	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Deputy General Manager	Chih Chung Lin (Note)	Male	Republic of China	03/02/2015	55000	0.08	-	-	-	-	Department of Information Engineering, Japan Electronics College General Manager of CyberLink Corporation in Japan	Egis Technology (Japan) Inc. Director and General Manager	-	-	-
Deputy General Manager	Han Chung Seok	Male	Korea	11/03/2015	-	-	-	-	-	-	Yonsei Graduate School of Business , MBA Fingerprint Cards Korea ,Korea Country Manager	Nil	-	-	-
Deputy General Manager	Nian Hong Huang	Male	Republic of China	12/24/2012	49,254	0.07	-	-	-	-	Michigan State University, Master of Statistics General Manager of Wison Technology Corporation	Nil	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Deputy General Manager	Shih-Hao Ro	Male	United States	04/01/2017	64,000	0.09	-	-	-	-	University of California, Riverside Business Manager of Egis Technology Inc. Mizubo Securities Asia Ltd Associate of M/A SBI & Capi locef22	Nil			

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Deputy General Manager	Xinling Zhang	Female	Republic of China	11/07/2017	-	-	-	-	-	-	Institute of Science and Technology Management, National Taiwan University of Science and Technology Deputy Director of Science and Technology Forward-looking Group, Science and Technology Reporting Office, Executive Yuan Group Leader of Science and Technology Institute, Institute for Information Industry Office Director of Transnational Information Plan, Ministry of Science and Technology (iCAST)	Nil			

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Chief Technology Officer	Enlin, Jian	Male	Republic of China	02/01/2008	148,000	0.21	-	-	-	-	Department of Information Engineering, National Taiwan University Chief Technology Officer of Ching Hu Technology Corporation	Nil	-	-	-
Deputy General Manager	Chih Ning Hsu	Male	Republic of China	03/05/2017	35,500	0.05	-	-	-	-	Department of Mechanical Engineering, National Sun Yat-sen University Senior Project Manager of Egis Technology Inc. Associate & Senior Software Manager of Corel Software Manager & Software Engineer of InterVideo	Nil			

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Financial Manager	Yi-Pin, Lee	Male	Republic of China	09/01/2016	58,600	0.08	-	-	-	-	University of Central Missouri, MBA National Chung Hsing University, Economics Primax Electronic Ltd., CFO Delta Networks, Inc., CFO CMC Magnetics Corp., CFO Taiwan Semiconductor Technology Corp., CFO Acer Group, Director	Nil	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Accountant Manager	Fei Min Huang	Female	Republic of China	11/14/2013	40,000	0.06	-	-	-	-	Department of Public Finance, National Chung Hsing University Manager of Accounting Department of Biodenta Corporation	Egis Technology (Japan) Inc. Supervisor	-	-	-
Deputy Audit Manager	Shiuan Shiuan Li	Female	Republic of China	07/02/2013	5,000	0.01%	-	-	-	-	Department of Accounting, Shih Chien University Financial Manager of Dynamic Digital Holdings Limited	Nil	-	-	-

Note 1: Dismissed on September 30, 2017

Note 1: The Chairman and General Manager of the Company.

Note 2: The representative of the juristic person director, HEADWAY CAPITAL LIMITED.

Note 3: Dismissed upon Reappointment of the Board of Directors after the Regular Shareholders Meeting in 2017.

Note 4: Appointment upon Reappointment of the Board of Directors after the Regular Shareholders Meeting in 2017.

Classification of Remunerations

Classification of Remunerations Paid to Various Directors of the Company	Name of Director			
	Aggregate Amount of First Four Items (A+B+C+D) of Remunerations		Aggregate Amount of First Seven Items (A+B+C+D+E+F+G) of Remunerations	
	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports
Less than NTD 2,000,000	Sen-Chou, Lo , Gong-Yi Lin Yi-Pin Lee , Ming-To Yu , Chen-Jung Shih , Shih-Hao Ro , Ding- Jung Lu , Fu- Chan,Wei , Ming-Jung Weng , Ta-Lun Huang	Sen-Chou, Lo , Gong-Yi Lin Yi-Pin Lee , Ming-To Yu , Chen-Jung Shih , Shih-Hao Ro , Ding- Jung Lu , Fu- Chan,Wei , Ming-Jung Weng , Ta-Lun Huang	Sen-Chou, Lo , Gong-Yi Lin Yi-Pin Lee , Ming-To Yu , Chen-Jung Shih , Shih-Hao Ro , Ding- Jung Lu , Fu- Chan,Wei , Ming-Jung Weng , Ta-Lun Huang	Sen-Chou, Lo , Gong-Yi Lin Yi-Pin Lee , Ming-To Yu , Chen-Jung Shih , Shih-Hao Ro , Ding- Jung Lu , Fu- Chan,Wei , Ming-Jung Weng , Ta-Lun Huang
NTD 2,000,000 (Inclusive) – NTD 5,000,000 (Exclusive)				
NTD 5,000,000 (Inclusive) – NTD 10,000,000 (Exclusive)			Gong-Yi Lin	Gong-Yi Lin
NTD 10,000,000 (Inclusive) – NTD 15,000,000 (Exclusive)				
NTD 15,000,000 (Inclusive) – NTD 20,000,000 (Exclusive)				
NTD 20,000,000 (Inclusive) – NTD 25,000,000 (Exclusive)			Yi-Pin, Lee; Shih Hao Ro	Yi-Pin, Lee;; Shih-Hao Ro
Total	Ten persons in total	Ten persons in total	Ten persons in total	Ten persons in total

(2) Supervisors' Remunerations

Since the Fifth Board of Directors, the Company has established an Audit Committee to replace the function of Supervisors. Therefore, this is not applicable.

(3) Remunerations of General Managers and Deputy General Managers

December 31, 2017; Unit: NTD Thousand; Thousand Shares; %

Position	Name	Salaries (A)		Retirement Pension (B)		Bonuses and Special Disbursements, etc. (C)		Amount of Employee Remunerations (D)				Percentage of Aggregate of Four Items A, B, C and D in Net Profit After Tax		Whether there are Remunerations Received from Invested Businesses other than Subsidiaries of the Company
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Report	The Company		All Companies in the Financial Report		The Company	All Companies in the Financial Report	
								Amount in Cash	Amount in Shares	Amount in Cash	Amount in Shares			
General Manager	Sen-Chou Lo													
Chief Operating Officer	Gong-Yi Lin	23157	27218	566	566	43386	43386	13860		13860		13.65%	14.33%	Nil
Chief Financial	Yi-Pin, Lee													

Officer														
Chief Technology Officer	Enlin, Jian													
Deputy General Manager	Chieh-Pin Su													
Deputy General Manager	Peter, Lin													
Deputy General Manager	Han Chung Seok													
Deputy General Manager	Nian-Horng Hwang													
Deputy General Manager (Note 1)	Shih-Hao Ro													
Deputy General Manager (Note 2)	Xinling, Zhang													

Note 1: Assumed the position of Deputy General Manager on April 01, 2017.

Note 2: Assumed the position of Deputy General Manager on November 13, 2017.

Classification of Remunerations

Classification of Remunerations Paid to Various General Managers and Deputy General Managers in the Company	Name of General Manager and Deputy General Manager	
	The Company	All Companies in the Financial Reports
Less than NTD 2,000,000	Sen-Chou Lo; Peter, Lin; Xinling; Zhang	Sen-Chou Lo; Xinling; Zhang
NTD 2,000,000 (Inclusive) – NTD 5,000,000 (Exclusive)	Chieh-Pin Su	Chieh-Pin Su
NTD 5,000,000 (Inclusive) – NTD 10,000,000 (Exclusive)	Enlin; Jian; Nian-Horng Hwang; Gong-Yi Lin; Han Chung Seok	Enlin; Jian; Nian-Horng Hwang; Gong-Yi Lin; Peter, Lin; Han Chung Seok
NTD 10,000,000 (Inclusive) – NTD 15,000,000 (Exclusive)		
NTD 15,000,000 (Inclusive) – NTD 20,000,000 (Exclusive)		
NTD 20,000,000 (Inclusive) – NTD 25,000,000 (Exclusive)	Yi-Pin; Lee	Yi-Pin; Lee
NTD 25,000,000 (Inclusive) – NTD 30,000,000 (Exclusive)	Shih-Hao Ro	Shih-Hao Ro
Total	Ten persons in total	Ten persons in total

(4) Name of Manager Distributing Employee Remunerations and Status of Distribution:

	Position	Name	Amount in Shares	Amount in Cash (Note 1)	Total	Aggregate Amount as a Percentage of Net Profit After Tax (%)
Manager	General Manager	Sen-Chou Lo	-	13,860	13,860	
	Chief Operating Officer	Gong-Yi Lin				
	Chief Financial Officer	Yi-Pin, Lee				
	Chief Technology Officer	Enlin, Jian				
	Deputy General Manager	Chieh-Pin Su				
	Deputy General Manager	Peter, Lin				
	Deputy General Manager	Han Chung Seok				
	Deputy General Manager	Nian-Horng Hwang				
	Deputy General Manager	Howard, Ro Shih-Hao Ro				
	Deputy General Manager	Xinling, Zhang				

Note 1: The resolution on employee remunerations was passed on March 5, 2018.

(5) Comparison and Explanation of the Analysis on the Ratio of the Aggregate Amount of Remunerations Paid to the Company's Directors, Supervisors, General Managers and Deputy General Managers by the Company and All Companies in the Consolidated Financial Statements to the Net Profit After Tax in the Parent Company Only Financial Reports or Individual Financial Reports, and Explanations on the Policies, Standards and Portfolios for the Payment of Remunerations, Procedures for Determining Remunerations, as well as the Correlation between Business Performance and Future Risks

1. Analysis of the Ratio of Remunerations Paid to the Directors, Supervisors, General Managers and Deputy General Managers of the Company in the Last Two Fiscal Years to the Net Profit After Tax

Unit: %

Position	Item	2016		2017	
		Percentage of Total Remunerations in Net Profit After Tax (%)		Percentage of Total Remunerations in Net Profit After Tax (%)	
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report
Directors		15.44	15.44	1.36%	1.36%
Supervisors		-	-	-	-
General Managers and Deputy General Managers		70.24	75.66	13.65%	14.33%

2. Policies, Standards and Portfolios for the Payment of Remunerations, Procedures for Determining Remunerations, as well as the Correlation between Business Performance and Future Risks

The total amount of remunerations paid by the Company to the Directors, General Managers and Deputy General Managers is mainly determined based on their degree of participation and value of contributions to the operations of the Company, with reference to the industry standards at home and abroad.

The remunerations of the General Managers and Deputy General Managers of the Company include their salaries, bonuses, employee remunerations and employee stock warrants. The salary standard is determined based on their positions in the Company, their responsibilities and their contributions to the Company, with reference to the standards in the same industry. The employee remuneration distribution standards are in compliance with the Articles of Incorporation of the Company, and employee remunerations are distributed after the resolution is passed by the Board of Directors and reported at the Shareholders Meeting.

IV. Corporate Governance Practices

(1) Practices of the Board of Directors

As of the publication date of this Prospectus, the Board of Directors has held eight (A) meetings (six in 2017 and two in 2018) in total. The attendance of directors was as follows:

Position	Name	Actual attendance times (B)	Attendance by Proxy	Rate of actual attendance (%) (B/A)	Remarks
Chairman	Sen-Chou Lo	8	0	100.00%	
Director	Chen-Jung Shih	7	0	87.50%	
Director	Ming-To Yu	8	0	100.00%	
Director	HEADWAY CAPITAL LIMITED Representative Gong-Yi Lin	6	1	75.00%	
Director	HEADWAY CAPITAL LIMITED Representative Yi-Pin, Lee	6	0	100.00%	Appointment on June 22, 2017, shall have attended 6 times
Director	Shih-Hao Ro	4	0	66.67%	Appointment on June 22, 2017, shall have attended 6 times
Independent director	Fu-Chan, Wei	1	0	50.00%	Dismissed on June 22, 2017 shall have attended 2 times
Independent director	Ming-Jung Weng	8	0	100.00%	
Independent director	Ding- Jung Lu	7	1	87.50%	
Independent director	Ta-Lun Huang	5	0	83.33%	Appointment on June 22, 2017, shall have attended 6 times

Other Matters to be Recorded:

- If the operation of the Board of Directors has one of the following circumstances, the date, period of the board of directors, the content of the proposal, the opinions of all independent directors and the Company's handling of the opinions of independent directors should be clarified:

(1) Matters listed in Article 14(3) of the Security and Exchange Act: Please refer to pages

52-55 in the important resolutions of the Board of Directors.

(2) Other resolutions of the Board of Directors that independent directors have an objection or reservation and which have a record or a written statement: no such situation.

2. In the event that any director has to abstain from voting on any proposal due to a conflict of interest, the name of the director, the content of the proposal, reason(s) for recusal, and the result of the voting should be specified:

Date of Board Meeting	March 21, 2017
Name of Director	Sen-Chou Lo; Gong-Yi Lin
Contents of the Proposal	Ratification of the issuance of year-end bonus and performance bonus to managers in 2016
Reason(s) for Recusal	Directors are concurrently serving as managers, and the representatives of the juristic person directors are concurrently serving as managers
Result of Voting	Other directors in attendance passed the resolution

Date of Board Meeting	May 5, 2017
Name of Director	Sen-Chou Lo; Ming-Jung Weng Ding- Jung Lu
Contents of the Proposal	To review list of candidates nominated for three independent directors who hold 1% or more shares that was accepted during the 2017 Annual Shareholder General Meeting of the Company for deliberation.
Reason(s) for Recusal	Directors are nominators and nominees
Result of Voting	Other directors in attendance passed the resolution

Date of Board Meeting	August 11, 2017
Name of Director	Shih-Hao Ro
Contents of the Proposal	The Second Quarter Performance Bonus Issuance Proposal of 2017
Reason(s) for Recusal	Directors are also the General Manager
Result of Voting	Other directors in attendance passed the resolution

Date of Board Meeting	December 4, 2017
Name of Director	Sen-Chou Lo; Gong-Yi Lin; Yi-Pin Lee; Shih-Hao Ro
Contents of the Proposal	The Company's issuance of new restricted employee shares for 2017
Reason(s) for Recusal	Directors are concurrently serving as managers, and the representatives of the juristic person directors are

	concurrently serving as managers
Result of Voting	Other directors in attendance passed the resolution

Date of Board Meeting	March 5, 2018
Name of Director	Sen-Chou Lo; Gong-Yi Lin; Yi-Pin Lee; Shih-Hao Ro
Contents of the Proposal	1. Issuance and Recognition for 2016 Employee Remuneration of the Company's Manager and Year-end Bonus and Performance Bonus of 2017 2. Recognition Proposal for Increase of Annual Salary of 2018
Reason(s) for Recusal	Directors are concurrently serving as managers, and the representatives of the juristic person directors are concurrently serving as managers
Result of Voting	Other directors in attendance passed the resolution

Date of Board Meeting	May 8, 2018
Name of Director	Chen-Jung Shih Ming-To Yu; Ming-Jung Weng Ding- Jung Lu, Ta-Lun Huang
Contents of the Proposal	Directors Remuneration Distribution Proposal of 2017
Reason(s) for Recusal	Directors are Distributee
Result of Voting	Other directors in attendance passed the resolution

3. Goals in the enhancement of the functions of the Board of Directors in the current fiscal year and the last fiscal year (such as the establishment of audit committee and enhancing information transparency, etc.) and evaluation of such implementations:

(1) Goals in the enhancement of the functions of the Board of Directors

1. The Company has formulated the Rules of Procedures for Board of Directors' Meetings according to the Regulations Governing Procedure for Board of Directors' Meetings of Public Companies through the resolution of the Board of Directors, and the Board of Directors shall be operated in accordance with the Rules of Procedures for Board of Directors' Meetings.
2. The Company has established independent directors, audit committee and remuneration committee, so as to strengthen the corporate governance functions of the Board of Directors.
3. The Company will regularly arrange for directors to participate in professional enrichment courses, so as to ensure that directors maintain their core values as well as their professional strengths and abilities.

(2) Assessment of Implementation Status

1. The Company has established the Remuneration Committee and Audit Committee on June 12, 2014 and October 17, 2014 respectively, so as to assist the Board of Directors in carrying out its duties.
2. The Company published important resolutions on the Market Observation Post System immediately after the board meetings to safeguard the rights and interests of shareholders. A special person was appointed with the responsibility of collecting and disclosing information on the Company, and a spokesperson system was established to ensure the timely and proper disclosure of important information, which serves as financial and business-related information of the Company for reference by the shareholders and interested parties.

(2) Practices of the Audit Committee

As of the printing date of this Prospectus, the audit committee has convened eight times (including six times of 2017 and two times of 2018). The participation situation of independent directors is as follows: (The Audit Committee was established on October 17, 2014)

Position	Name	Actual attendance times (B)	Attendance by Proxy	Rate of actual attendance (%) (B/A)	Remarks
Independent director	Fu-Chan, Wei	1	0	50.00%	Dismissed on June 22, 2017, shall have attended 2 times
Independent director	Ming-Jung Weng	8	0	100.00%	The Convener and Chairman of the First Term
Independent director	Ding- Jung Lu	7	1	87.50%	The Convener and Chairman of the Second Term
Independent director	Ta-Lun Huang	6	0	100%	Appointment on June 22, 2017, shall have attended 6 times

Other Matters to be Recorded:

1. For any matter listed in Article 14(5) of the Securities and Exchange Act and other resolutions that were passed by two-thirds or more of all directors but not approved by the Audit Committee, the date, period of the Board of Directors, the content of the proposal, the resolution result of Audit Committee and the Company's handling of the opinions of independent directors should be clarified:
 - (1) Matters listed in Article 14(5) of the Security and Exchange Act: Please refer to pages 52-55 in the important resolutions of the Board of Directors.
 - (2) Resolutions that were passed by two-thirds or more of all directors but not approved by the Audit Committee other than the aforesaid matters: Nil.
2. In the event that any independent director has to abstain from voting on any proposal due to a conflict of interest, the name of the independent director, the content of the proposal, reason(s) for recusal, and the result of the voting should be specified: no such situation.
3. Communications between the independent directors and internal audit supervisors, as well as accountants (such as matters related to the financial or business situation of the Company that were communicated, the mode and outcome of such communications, etc.)

Notes: (1) Direct communication may be made with the audit supervisors and accountants where necessary, and the status of the audit shall be reported directly by the auditing personnel during the attendance of board meeting.

(2) The Audit Committee of the Company is in good communication with the certified public accountants. The certified public accountants report the results of the audit or review of the financial statements of the current year and other matters to be communicated in accordance with the requirements of the relevant laws in meeting of the Audit Committee every year. They will also report to the Audit Committee when special situations arise.

(3) The Company’s Corporate Governance Practices, and Discrepancies with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, as well as Reasons for the Discrepancies

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
1. Did the Company formulate its Code of Corporate Governance Practices according to the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”?	✓		The Company has formulated Code of Practice for Corporate Governance and will discuss resolutions on board proposals.	No major discrepancy
2. Shareholding Structure of the Company and Shareholders’ Equity (1) Did the Company establish internal operating procedures to deal with the proposals, doubts, disputes and litigation matters of shareholders, and implement these in accordance with the procedures? (2) Does the Company have a name list of the principal shareholders who are in actual control of the Company and the ultimate controllers of the principal shareholders? (3) Did the Company establish and implement risk control and firewall mechanisms between itself and its related enterprises?	✓ ✓ ✓	✓	(1) The Company has a spokesperson, and the spokesperson, acting spokesperson, shareholder services unit, investor-related unit, as well as the relevant departments of the legal service unit act as channels for proposals by and communication with shareholders, which can properly handle. (2) The shareholder services unit is responsible for controlling information related to the Company, and it maintains close contact with the principal shareholders. (3) The Company has established relevant controls in the Company’s internal control system and Regulations for Financial- and Business-Related Operations with Related Enterprises according to law.	No major discrepancy No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
(4) Did the Company establish internal standards to prohibit insiders from trading in securities using information that is undisclosed to the market?	✓		(4) The Company has formulated Article 6 of the Operating Procedures for the Management of Significant Internal Information to prohibit directors, supervisors, managers and employees with knowledge of significant internal information of the Company from disclosing the said information to others. In addition, the “Management Procedures for the Prevention of Insider Trading” prohibit the disclosure of any information to the public or the adoption of any prohibited actions before the release of significant information, so as to ensure the correctness and popularity of the information.	No major discrepancy
3. Composition and the Duties of the Board of Directors (1) Did the Board of Directors formulate and implement a diversity policy with regard to its membership composition?	✓		(1) Article 11 of the Company’s Code of Practice on Corporate Governance has made it clear that the composition of the Board of Directors should be considered for diversification. The Board of Directors of the Company includes experts in various fields such as industry technology and finance to assist the Company in its diversified operations, business and development. The current Board of Directors has 9 members, including 3 independent directors.	No major discrepancy
(2) Apart from establishing the Remuneration Committee and Audit Committee in		✓	(2) Apart from the Remuneration Committee and Audit Committee, the Company has not established any	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
accordance with the law, did the Company establish other functional committees of its own will?			other functional committees at this point.	
(3) Did the Company formulate measures to appraise the performance of the Board of Directors as well as the method of appraisal, and conduct annual performance appraisals on a regular basis?	✓		(3) The Company has formulated the Methods for Performance Appraisal of the Board of Directors and conducts director self-appraisal and implementation of the Board of Directors' record for various appraisal indicators of the previous year made at the start of each year in accordance with provisions of Method, and the results of the appraisal are submitted in a report to the Board of Directors.	No major discrepancy
(4) Does the Company evaluate the independence of the certified public accountants on a regular basis?	✓		(4) The Company assesses the independence of the certified public accountants before appointing them each year, so as to strengthen the independence of financial disclosure information.	No major discrepancy
4. Did the Company establish a dedicated (or ad-hoc) corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to providing directors and supervisors with the necessary information for business execution, handling matters related to board meetings or shareholder meetings according to law, processing the registration and	✓		The Company has promoted the establishment of the Company's corporate governance area dedicated (part-time) units to be the Company's equity unit and is responsible for implementation of all corporate governance-related matters, including handling of matters related to board meetings or shareholder meetings according to law, modification of registration of the Company, regular reviews and revisions of corporate governance practices, preparing minutes of board meetings	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
modification of registration of the Company, and preparing minutes of board meetings and shareholder meetings, etc.)?			and shareholder meetings, and arranging enrichment courses for directors and managers on a regular basis, etc.	
5. Whether the Company established channels of communication with stakeholders (including but not limited to shareholders, employees, customers and suppliers, etc.), as well as set up a special section for stakeholders on the Company's website and responded appropriately to important corporate social responsibility issues that are of concern to stakeholders?	✓		In order to maintain a smooth communication channel with stakeholders, the Company has set up a special section for stakeholders (including but not limited to shareholders, employees, customers and suppliers, etc.) on the Company's website (http://www.egistec.com). In the event that a stakeholder suffers an infringement of his/her rights, discovers an employee of the Company to be involved in behavior that is illegal or in violation of the Company's corporate governance, or has any doubts or suggestions related to the Company, the stakeholder can contact the Company through this channel, and there will be a specially assigned personnel who will reply and handle the matter.	No major discrepancy
6. Has the Company appointed a professional shareholder services agency to handle the affairs related to the Board of Shareholders?	✓		The Company has appointed the Stock Service Department of Yuanta Securities Co., Ltd. as the shareholder services agency of the Company, and handled affairs related to the Board of Shareholders.	No major discrepancy
7. Information Disclosure (1) Has the Company established a website for the disclosure of its financial, business and corporate governance information?	✓		(1) The Company has disclosed information related to its business, finance and corporate governance status on the Company's website. (http://www.egistec.com)	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
(2) Has the Company adopted other measures for the disclosure of information (such as setting up an English website, appointing a personnel to be responsible for the collection and disclosure of information related to the Company, implementing a spokesperson system, and posting investor conferences on the Company's website, etc.)?	✓		(2) The Company has appointed spokesperson and acting spokesperson and has also designated a personnel to be responsible for the collection and disclosure of information to be released to the public (including the English website and the legal representative explanation meeting), so as to provide the spokesperson, acting spokesperson, and the relevant business departments with the resources to answer inquiries from stakeholders and the competent authorities.	No major discrepancy
8. Has the Company disclosed other important information (including but not limited to employee rights, employee welfare, investor relations, supplier relations, the rights of stakeholders, training records of the directors and supervisors, implementation status of risk management policies and risk assessment criteria, implementation status of customer relations policies, and whether the Company has purchased liability insurance for its directors and supervisors) to facilitate a better understanding of its corporate governance practices?	✓		(1) Implementation status of employee rights and employee welfare: The Company has open communication channels and is able to handle, answer and address the expectations, suggestions, doubts and grievances of employees in a reasonable and appropriate manner. Attention is paid to the rights and interests of employees and concern is shown towards the employees; a work environment with gender equality and prevention and elimination of sexual harassment among staff was established; the Staff Welfare Committee organizes various travel activities for staff every year; and staff with outstanding work performance are commended as excellent employees at the end of each year.	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			(2) Investor relations: The Company upholds the principles of fairness and openness in its treatment of all shareholders, and convenes the shareholders' meeting every year in accordance with the Company Act, as well as the relevant laws and regulations. It also notifies all shareholders to attend the shareholders' meeting in accordance with the relevant regulations, encourages shareholders to actively participate in motions such as those regarding the election of the directors and supervisors or revisions to the Articles of Incorporation, and it reports important financial and business decisions such as the acquisition and disposal of assets, as well as endorsements and guarantees, etc. in the shareholders' meeting. The Company also provides ample opportunities for shareholders to raise inquiries or proposals in order to have effective checks and balances. It has formulated the rules of procedure for shareholders' meetings in accordance with the law, and has properly kept the minutes of shareholders' meetings, as well as made full disclosure of the relevant information on the Market Observation Post System. In addition, in order to ensure that shareholders are fully aware of the major issues of the Company, enjoy full participation and decision-	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			<p>making rights, the Company has established the positions of spokesperson and acting spokesperson, as well as designated a personnel to handle the suggestions, doubts and disputes of shareholders. Since the Company's public offering, it has designated personnel to be responsible for the collection and disclosure of information related to the Company, handling of the announcements and declarations of the relevant information, as well as provision of timely information that may affect the decision-making of investors according to the principles of information disclosure.</p> <p>(3) Supplier relations: The Company carries out the audit and management of suppliers on the basis of good faith to ensure that suppliers are able to meet the various environmental regulations and fulfill its social responsibility, and continue to provide price-competitive products that meet the standards of the Company. The Company shall continue to uphold the spirit of mutual trust and mutual benefit with its suppliers in the hope that the suppliers can grow and achieve a win-win situation together with the Company.</p> <p>(4) Rights of stakeholders: Depending on the</p>	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			<p>circumstances, the Company may instruct the investor relations, shareholder services and legal affairs departments, etc. to communicate with stakeholders, and it has listed the contact information of the spokesperson as well as the various relevant business departments on the Company's website. A section dedicated to stakeholders has been set up on the Company's website (http://www.egistec.com). Stakeholders may communicate with the Company and raise suggestions at any time to safeguard their rights and interests.</p> <p>(5) Implementation status of risk management policies and risk assessment criteria: With regard to the risk management policies and risk assessment criteria of the Company, the Office of the General Manager, the Business Department, Finance Department and other units are jointly responsible for the implementation of the risk management policies and performance of risk assessment. Please refer to Section VII, (6) Explanation on Risk Management Assessment of the current year's annual report for details. (Pages 94-95)</p> <p>(6) Implementation status of customer policies: The Company has always maintained strict confidentiality of the secrets of its customers. Where a competitive</p>	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy								
	Yes	No	Summary Description									
			<p>relationship exists between customers, the internal department will set up different teams to service the customers, and firewalls will be established to protect the information of the customers. Discussions on the secrets of customers are generally prohibited in the Company as well as in public places, so as to achieve the goal of customer protection. At the same time, a customer complaint handling mechanism has been established for the appropriate identification of problems in customer complaints and for the attribution of responsibility, so as to protect the rights and interests of customers. In addition, customer satisfaction surveys are carried out to ensure that customers are most satisfied with the services provided.</p> <p>(7) Purchase of liability insurance for the directors and supervisors by the Company: The Company has purchased liability insurance from Fubon Insurance for directors and managers.</p> <p>(8) Training records of directors:</p> <table border="1"> <thead> <tr> <th>Position</th> <th>Name</th> <th>Name of Course</th> <th>Number of Training Hours</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Position	Name	Name of Course	Number of Training Hours					
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Assessment Item	Implementation Status						Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description				
						Legal Compliance Perspective	
<p>9. Please explain the improvements that have been made with regard to the Corporate Governance Evaluation results released in the last fiscal year by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, as well as suggest priority enhancement matters and measures to be taken for matters that have not been improved.</p> <p>This year's improvement of corporate governance includes providing Chinese and English shareholders' meeting handbooks, annual reports as well as Chinese and English financial reports and setting up pages with relevant information on the Company's website, to enhance information transparency (including communication channels with stakeholders), strengthen the structure and operation of the Board of Directors, implement corporate social responsibility as well as the spirit of corporate governance within the stipulated time limits. The Company will continue to demonstrate perpetual strength in economic, environmental and social aspects, and it shall continue to uphold the enterprise's core values of honesty and integrity in shouldering its long-term and perpetual responsibilities towards the various stakeholders and the society.</p>							

(4) If the Company has set up a Remuneration Committee, the composition and duties, as well as the operational situation of the committee should be disclosed

1. Particulars of the Members of the Remuneration Committee

Position	Name	Whether He/She has Five Years or More of Work Experience and the Following Professional Qualifications			Status of Compliance with the Independence (Note 1)								Number of Other Public Companies in which He/She is Concurrently an Independent Director
		A Lecturer or Above in the Department of Commerce, Law, Finance, Accounting or Other Departments Related to the Company's Business in a Public or Private Tertiary Institution	A Judge, Prosecutor, Attorney, Accountant or Other Professional and Technical Specialist who Has Passed a National Examination and has been Awarded a Certificate in a Profession Necessary for the Business of the Company	Possesses Work Experience in the Area of Commerce, Law, Finance, Accounting or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Independent director	Fu-Chan, Wei (Note 2)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent director	Ming-Jung Weng			✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Independent director	Ding- Jung Lu			✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent director	Ta-Lun Huang (Note 2)			✓	✓	✓	✓	✓	✓	✓	✓	✓	0

2. Note 1: Please place a “✓” in the blanks of the various criteria codes below if the various directors and supervisors meet the following criteria two years before being elected and during the term of office.

3. (1) Not an employee of the Company or any of its related enterprises.
4. (2) Directors and supervisors of non-company related enterprises (but excluding independent directors set up by the Company or its parent company, or a subsidiary company under this Act or a local law).
5. (3) A natural person shareholder who does not hold shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent (1%) or more of the total shares issued by the Company, or does not rank among the top ten in terms of shares held.
6. (4) Not the spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
7. (5) Not a director, supervisor or employee of a juristic person shareholder who directly holds five percent (5%) or more of the total shares issued by the Company, or ranks among the top five juristic person shareholders in terms of shares held.
8. (6) Not a director, supervisor, manager or shareholder who holds five percent (5%) or more of the shares of any specific company or organization that has financial or business dealings with the Company.
9. (7) Not a professional or a business owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company or institution that provides commercial, legal, financial, accounting and other services or consultation to the Company or its related enterprises, or the spouse of the said person. However, this limitation does not apply to members of the Remuneration Committee who exercise their duties and powers according to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
10. (8) Not in violation of any of the matters listed in Article 30 of the Company Act.
11. Note 2: In the regular shareholders meeting on June 22, 2017, the director Fu-Chan, Wei was dismissed, and the director Ta-Lun Huang was appointed.

2. Duties and Powers of the Remuneration Committee

The Remuneration Committee shall exercise the care of a good administrator in faithfully performing the official duties and powers listed below, and shall submit its recommendations for deliberation by the Board of Directors:

- (1) Periodically review the regulation and propose recommendations for amendments.
- (2) Establish and periodically review the annual and long-term performance goals, as well as the policies, systems, standards and structure for remuneration of the directors and managers of the Company.
- (3) Periodically assess the degree to which performance goals for the directors and managers of the Company have been achieved, and establish the contents and amounts of their individual remunerations.

3. Information on the Operational Situation of the Remuneration Committee

- (1) The Remuneration Committee of the Company comprises of three members.
- (2) As of the publication date of this Prospectus, the Board of Directors has held six meetings (four in 2017 and two in 2018) in total. The attendance of directors was as follows:

Position	Name	Actual attendance times (B)	Attendance by Proxy	Rate of actual attendance (%) (B/A)	Remarks
Committee Member	Fu-Chan, Wei	1	0	50.00%	Dismissed on June 22, 2017, shall have attended 2 times
Committee Member	Ming-Jung Weng	6	0	100.00%	The Convener and Chairman of the First Term
Committee Member	Ding-Jung Lu	6	0	100.00%	The Convener and Chairman of the Second Term
Committee Member	Ta-Lun Huang	4	0	80%	Appointment on June 22, 2017, shall have attended 3 times

Other Matters to be Recorded:

1. Where the Board of Directors declines to adopt or modifies a recommendation of the Remuneration Committee, the date and session of the board meeting, contents of the proposal, outcome of the resolution by the Board of Directors and the Company's handling of the opinions of the Remuneration Committee should be specified: no such situation.
2. If with respect to any resolution of the Remuneration Committee, any member has a

dissenting or qualified opinion that is on record or stated in a written statement, the date and session of the Remuneration Committee meeting, content of the proposal, as well as the opinions of all committee members and the handling of their opinions shall be specified: no such situation.

(5) Status of Implementation of Social Responsibility

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
1. Implementation of Corporate Governance				
(1) Does the Company have a corporate social responsibility policy or system and has its effectiveness been evaluated?	✓		(1) In order to promote the spirit of corporate governance and fulfill its social responsibility, the Company has instructed each department to perform its corporate social responsibility to the best of its ability in accordance with its duties. The Company's dedicated corporate social responsibility unit has formulated a corporate social responsibility code of practice and will propose it at the board meeting for deliberation and resolution.	The Company has formulated corporate social responsibility code of practice.
(2) Does the Company organize corporate social responsibility trainings on a regular basis?	✓		(2) Regularly conduct trainings for new personnel, trainings on ethics and training for new supervisors, as well as channels of communication for supervisors and other such courses, to advocate courses related to social responsibility such as those on integrity, human rights, staff management and employee communication.	No major discrepancy
(3) Does the Company have a dedicated (or ad-hoc) unit	✓		(3) The Company has set up a dedicated unit to	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
<p>for the promotion of corporate social responsibility that is managed by senior management as authorized by the Board of Directors, and which reports to the Board of Directors on the status of implementation?</p> <p>(4) Does the Company have a reasonable remuneration policy that is integrated with the employee performance appraisal system and corporate social responsibility policy, as well as a clear and effective incentive and disciplinary system?</p>	✓		<p>promote corporate social responsibility as the Office of the General Manager, and each department shall perform its corporate social responsibilities to the best of its ability in accordance with its duties.</p> <p>(4) The Company has formulated the Personnel Regulations and Work Management Rules and set out incentive and disciplinary standards as well as the relevant performance appraisal system. Reasonable adjustments to remunerations are made by appraising employee performance based on the work performance and abilities of employees, and education and training are organized for new staff to promote business ethics and culture.</p>	No major discrepancy
<p>2. An Environment of Sustainable Development</p> <p>(1) Is the Company committed to improving efficiency in the utilization of each resource? Does it use renewable materials that have a low impact on the environment?</p>	✓		<p>(1) The Company is the design company of software and hardware, without physical product, which has impact on environment. The Company is committed to improving efficiency in the utilization of each resource, to achieve energy</p>	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(2) Has the Company established an appropriate environmental management system according to its industrial characteristics?		✓	conservation, waste reduction, and reduce impact on environment, so as to safeguard earth's resources and protect environmental health. (2) The Company has yet to establish an environmental management system, but it has implemented measures for resource recovery and power-saving measures in office lightings, and has achieved effectiveness in resource conservation. The recycling of waste has also been entrusted to an agency that has obtained the waste removal and disposal permit.	No major discrepancy
(3) Does the Company pay attention to climate changes on business activities, and has it implemented a greenhouse gas inventory system and formulated energy conservation, carbon reduction and greenhouse gas reduction strategies?	✓		(3) The Company consistently promotes energy conservation and carbon reduction policies, advocates the habit of switching off lights and air-conditioners in employees, as well as encourages the recycling and reusing of paper. It also classifies waste in accordance with the resource recovery policy and has commissioned a legal company for proper recovery of the waste generated.	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
3. Safeguarding Social Welfare				
(1) Does the Company formulate management policies and procedures in accordance with the relevant laws and regulations, as well as the International Bill of Human Rights?	✓		(1) The Company is in compliance with the relevant laws and regulations such as the Labor Standards Act and Gender Equality Employment Act, and observes the internationally recognized fundamental principles of labor rights. It has formulated the Personnel Regulations and Work Management Rules, indicating the policies for employment, incentives and disciplinary, so as to safeguard the legitimate rights and interests of employees.	No major discrepancy
(2) Does the Company have an established mechanism and channel for employee grievances and does it handle the grievances in an appropriate manner?	✓		(2) The Company has established a mechanism and channel (mailbox) for employee complaints, so that employees may file complaints in secret and without fear of retaliation. There have been no grievances from employees up to this point.	No major discrepancy
(3) Does the Company provide employees with a safe and healthy working environment, and educate employees on safety and health on a regular basis?	✓		(3) The Company has appointed safety and health management staff and conducted safety and health educational training courses, as well as overhauls of fire-fighting equipment on a regular basis, so as to provide employees with a safe and	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(4) Has the Company established a mechanism for regular communication with employees? Does it adopt reasonable measures to notify employees of operational changes that may result in significant impact?	✓		healthy work environment. (4) The Company holds aperiodically staff communication meetings to communicate the operational changes as well as major decisions of the Company, and it has established multiple communication channels (mailbox) for employees, so as to observe the rights of employees with regard to the receipt of relevant information and expression of their opinions.	No major discrepancy
(5) Has the Company established effective career development training plans for employees?	✓		(5) The Company has created a good environment for the career development of employees, and it has also established effective career development training plans.	No major discrepancy
(6) Has the Company formulated relevant policies to protect the rights and interests of consumers, as well as grievance procedures, with regard to research and development, procurement, production, operations and service processes?	✓		(6) The Company maintains good channels of communications with customers, and it has provided transparent and effective procedures for handling customer complaints with regard to its products and services. Customers may communicate with the Company and provide suggestions at any time, in order to safeguard their due rights and interests.	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(7) Is the Company in compliance with the relevant laws and regulations, as well as international standards in the marketing and labelling of its products and services?	✓		(7) The Company is in compliance with the relevant laws and regulations and international standards in the marketing and labelling of its products.	No major discrepancy
(8) Does the Company evaluate the social and environmental track records of suppliers before engaging in business dealings with the suppliers?	✓		(8) The Company has assessed and evaluated its suppliers, and it will enhance the assessment of the environmental and social impact caused by suppliers in the future.	No major discrepancy
(9) Do the Company's contracts with its major suppliers contain clauses for termination or rescission at any time if suppliers violate the corporate social responsibility policy of the Company and causes significant environmental and social impact?		✓	(9) The Company assesses its suppliers and evaluates their operations regularly, and it will include the corporate social responsibility of both parties, as well as the relevant contract termination clauses when signing contracts with suppliers in the future.	No major discrepancy
4. Enhancing Information Disclosure Does the Company disclose relevant and reliable corporate social responsibility information on its website and the Market Observation Post System?	✓		The Company disclosed Code of Ethical Business and related information formulated on the Company's website (http://www.acer-group.com) and Market Observation Post System.	No major discrepancy.
5. If the Company has formulated its own corporate social responsibility principles based on the Corporate Social Responsibility Best Practice				

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
<p>Principles for TWSE/TPEX Listed Companies, please specify any discrepancies between the formulated principles and its implementation: The Company has formulated its corporate social responsibility principles. The spirit of the principles will be implemented by strengthening the measures such as education, training and promotion, so as to develop a sustainable environment, safeguard social welfare and enhance the implementation of principles related to the disclosure of corporate social responsibility information, etc. No discrepancy.</p>				
<p>6. Other important information to facilitate better understanding of the corporate social responsibility practices:</p> <p>(1) Environmental Protection: The Company implements and manages environmental protection in accordance with the laws.</p> <p>(2) Rights and Interests of Consumers: The Company has dedicated staff to handle the complaints of customers, and protect the rights and interests of consumers.</p> <p>(3) Human Rights, Safety and Health: As far as corporate social responsibility is concerned, the protection of the employment security, safety and health of employees should be the main subject with regard to respect for human rights. The Company has always been responsible for the rights and interests of its employees, providing employees with fair employment opportunities, a good working environment and reasonable welfare without differential treatment due to gender or racial differences, etc., thus guaranteeing the employment opportunities of employees and providing employees with stability in their life and job. In addition, in order to protect the work environment and the personal safety of employees, the Company has designated a labor safety and health management staff to enforce management and control in accordance with governmental regulations and standards. According to the concept of corporate ethics, the Company has established communication channels between the management and employees through the holding of regular labor meetings and through multiple employee communication channels (mailbox), so as to fulfill its corporate social responsibility of respecting the human rights of employees and safeguarding the rights and interests of employees.</p> <p>(4) Other corporate social responsibility activities:</p> <p>1. The Company provides information equipment to tribal students in remote and rural areas, so as to enhance the opportunities for digital information learning in tribal students.</p>				

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
2. Cooperate with the North Coast Tourism Bureau of the Ministry of Communication and the Guanyinshan National Scenic Area Management Office to conduct the net beach activity.				
7. It should be specified whether the corporate social responsibility report of the Company has passed the verification standards of the relevant verification institution: The Company has not prepared any corporate social responsibility report up to this point.				

The company is a software and hardware design company that does not have factory-manufactured products. In order to respond to environmental protection and energy conservation, employees are required to start from everyday life and office environment.

- (1) Lighting section: Improve lighting fixtures, replace old lighting fixtures such as incandescent lamps and halogen lamps, etc., and fully use energy-saving LED lamps; during the noon break, lighting in the office is turned off or partially turned off.
- (2) Power section: During Spring Festival and consecutive holidays, all units are reminded to remove plugs of electrical appliances that can be removed, such as drinking fountains and refrigerators.
- (3) Others: Set up exclusive transaction machine space, and decline sharply the number of transaction machine (only one transaction machine is used after office decoration) and list machine through the following printed functions of transaction machine, which can reduce carbon emissions and energy-saving (standby power of transaction machine); effective classification of waste material and resource recycling.

(6) Ethical Management Practices and Measures Adopted by the Company

Implementation of Ethical Management

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
1. Formulation of Ethical Management Policy and Programs				
(1) Did the Company expressly specify the ethical management policy and measures as well as the commitment on active implementation of the management policy by the Board of Directors and the management in its regulations and public documents?	✓		(1) The Company will formulate the Code of Practice for Corporate Governance and has formulated the Integrity Code of Practice, Code of Ethical Conduct, Guidelines for the Operational Procedures and Conduct of Honest Operations and Code of Practice for Corporate Governance, etc., which are published on the Company's website. Integrity is a core value of our Company and it is also fundamental to enterprise management. These principles apply to the directors, managers, employees and related personnel of the Company.	No major discrepancy
(2) Has the Company formulated programs against unethical conduct, and expressly stated the operating procedures, behavioral guidelines, disciplinary actions and grievance system for violations of	✓		(2) The Company will formulate the Code of Practice for Corporate Governance and has formulated Code of Ethical Conduct and Guidelines for the Operational Procedures and Conduct of Honest	No major discrepancy

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
<p>regulations in the various programs, as well as implemented these programs?</p> <p>(3) Does the Company adopt any preventive measures against the various items under Paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” or other operating activities with relatively high risk of unethical conduct within the scope of business?</p>	✓		<p>Operations, strictly requiring that all decisions and actions of the Company be made in conformity with the laws and regulations as the basic principle, and it promotes and strengthens the concept of ethical management through education.</p> <p>(3) Apart from conducting education and training programs, as well as publishing relevant implementation manuals for the promotion/regulation of ethical conduct, the Company also conducts internal audits or regular rotation of jobs to lower risks with regard to units/personnel (such as procurement, capital) with potentially higher risk.</p>	No major discrepancy
<p>2. Implementation of Ethical Management</p> <p>(1) Does the Company assess the ethical records of its trading partners, and does it specify clauses on ethical conduct in contracts signed with its trading partners?</p>	✓		<p>(1) The Company will formulate the Code of Practice for Corporate Governance and has formulated Guidelines for the Operational Procedures and Conduct of Honest Operations.</p>	No major discrepancy

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(2) Has the Company set up a dedicated (or ad-hoc) unit that is accountable to the Board of Directors to promote corporate ethical management, and which regularly reports the execution thereof to the Board of Directors?	✓		<p>The Company takes into consideration the legitimacy of its trading partners, as well as whether they have any record of unethical conduct in its various business dealings, so as to ensure that all business activities are in compliance with the principle of ethical conduct. It has also specified in its contracts with the trading partners that the contracts may be unconditionally terminated or rescinded at any time in the event of any involvement in unethical conduct by the trading partners which damages the interests of the Company.</p> <p>(2) The Company has formulated the Code of Practice for Corporate Governance and Code of Ethical Conduct and Guidelines for the Operational Procedures and Conduct of Honest Operations. The Human Resources and Administration Department has been designated as the dedicated unit to assist the Board of</p>	No major discrepancy

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(3) Has the Company formulated policies to prevent conflicts of interest, provided adequate channels for reporting such situations, and implemented these measures?	✓		<p>Directors and management in checking and assessing the effectiveness of the preventive measures established for the implementation of ethical management, and to submit reports to the Board of Directors whenever necessary.</p> <p>(3) Policies on conflicts of interest and situations/standards of contravention are specified in the Ethical Management Policy and Code of Ethical Conduct, under which the relevant personnel are required to avoid such situations, and take the initiative to report to their immediate supervisor, head of the human resources unit or Board of Directors in the event that they are aware of or are facing a similar situation.</p>	No major discrepancy
(4) Has the Company established an effective accounting system and internal control system for the implementation of ethical management, and appointed an internal audit unit to conduct periodic	✓		<p>(4) An evaluation and self-assessment of the design and effectiveness of implementation of the internal control system, including the accounting system, will be carried out annually based on the</p>	No major discrepancy

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
<p>audits, or commissioned accountants to conduct audits?</p> <p>(5) Does the Company organize regular internal or external education and training programs for ethical management?</p>	✓		<p>principle of ethical management, and amendments will be made where necessary. Internal auditors will conduct regular audits on compliance with the system, and accountants will also be commissioned to carry out internal control audits.</p> <p>(5) At present, the Company has not organized regular internal or external education and training programs for ethical management, but it advocates this to employees during its education and training for new staff.</p>	No major discrepancy
<p>3. Implementation of the Whistleblowing System of the Company</p> <p>(1) Has the Company developed a specific whistleblowing and reward system and established convenient whistleblowing channels, and does it assign appropriate and dedicated personnel to deal with persons of whom the offenses are reported?</p>	✓		<p>(1) The Company has formulated the Code of Practice for Corporate Governance and Code of Ethical Conduct and Guidelines for the Operational Procedures and Conduct of Honest Operations to encourage internal and external personnel to report unethical or improper</p>	No major discrepancy

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(2) Has the Company formulated standard operating procedures and the relevant non-disclosure mechanism with regard to the investigation of offenses reported?	✓		behavior. It offers a discretionary bonus according to the severity of the reported matter. Disciplinary action will be taken against any personnel who makes false or malicious allegations, and the personnel will be dismissed in serious cases. The Human Resources and Administration Department is the dedicated unit which is responsible for the planning and review of the whistleblowing system to ensure the effectiveness of its implementation. (2) The Company has established a specific whistleblowing system and it has set out clear operating procedures for the raising of grievances, the investigation, and the handling measures after the end of investigation. The identities of whistleblowers and content of the offenses are treated by the Company as confidential.	No major discrepancy
(3) Has the Company adopted any measures to protect the	✓		(3) The Company should provide protection to the	No major

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
whistleblowers from being abused after reporting offenses?			relevant personnel who reported the offense or of whom the offense is reported against, in the course of their participation in the investigation process, so as to ensure that they are not subject to unfair reprisals or treatment.	discrepancy
4. Enhancing Information Disclosure Did the Company disclose its Ethical Management Principles and effectiveness of its implementation on the Company's website and the Market Observation Post System?	✓		The Company has disclosed its Ethical Management Principles on the Company's website (http://www.egistec.com) and shall disclose the relevant information on the effectiveness of its implementation on the website or in the annual report.	No major discrepancy
5. If the Company has established its Ethical Management Principles based on "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", please specify any discrepancies between the Principles and their implementation: The Company has formulated "Ethical Management Principles" and appointed the Human Resources and Administration Department as the dedicated unit to handle the revision, implementation, interpretation and advisory services related to these operating procedures and behavioral guidelines, register and file the content of notifications, and carry out other related operations, as well as oversee such implementation. In addition, the said unit submits reports to the Board of Directors as and when necessary, and there is no major discrepancy between its operations and the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies.				

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
<p>6. Other important information to facilitate better understanding of the ethical management practices of the Company: (such as review and amendment of the Ethical Management Principles formulated by the Company, etc.)</p> <p>(1) The Company’s implementation of ethical management is based on its compliance with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, regulations relevant to TWSE/TPEX listed companies, and other laws related to commercial practice.</p> <p>(2) The Rules of Procedures for Board of Directors’ Meetings has set out a system of recusal for directors in case of conflict of interest. Directors shall comment on and answer to proposals listed in board meetings that affect their personal interests or the interests of the juristic persons they are representing, and which may harm the interests of the Company, but they shall not partake in the discussions and voting and shall exercise recusal during discussions and voting, and they may not act on behalf of other directors in the exercise of their voting rights.</p> <p>(3) The Company has formulated the Management Practices for the Prevention of Insider Trading and Operating Procedures for the Management of Significant Internal Information, under which directors, managers and employees shall not disclose significant internal information that they have knowledge of to others, and shall not make inquiries with persons who possess significant internal information of the Company, or collect significant internal information unrelated to their personal duties that has yet been disclosed by the Company. They may also not disclose significant internal information obtained outside of their performance of business activities that has yet been disclosed by the Company to others.</p> <p>(4) The Company has always upheld the principle of integrity in its operations, and practices good management in adherence to the relevant laws and regulations, as well as the internal control system. It strictly forbids behavior that is unethical or in violation of the law, and it has a legal affairs unit that serves as a basis for consultation and validation whenever necessary.</p> <p>(5) The Company has insured its directors, managers and key employees under directors and officers liability insurance (D&O), which can sufficiently reduce the risks to the Company arising from the performance of duties by the relevant personnel, and safeguard the rights and</p>				

Assessment Item	Implementation Status			Discrepancies With the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
interests of investors.				

Fulfillment of Ethical Management and Adopting of Measures

1. The Company follows the Company Law, the Securities and Exchange Act, the International Accounting Standards and other related regulations of listed counters as the basis for implementing the ethical management.
 2. The Rules of Procedures for Board of Directors' Meetings has set out a system of recusal for directors in case of conflict of interest. For events of the board meeting that have interests with itself or the legal person representing it, directors shall not participate in the discussions and voting, and they may not act on behalf of other directors in the exercise of their voting rights.
 3. The Company's internal control system clearly acknowledges that the person who is making the announcement must not publicly release any information before releasing a major message to ensure the correctness and popularity of the information. The contents of the material information should detail the authenticity of the matter and whether or not it has any effect on the Company's financial affairs.
 4. The Company clearly stipulates the ethical code of conduct, requiring each and every employee of the Company and its subsidiaries to be responsible for complying with the code of conduct and safeguarding the Company's cultural core values and reputation.
- (7) If the Company has formulated the Corporate Governance Practices and other relevant regulations, it should disclose the method of inquiry into these practices and regulations.

The Corporate Governance Practices, Rules of Procedures for Board of Directors' Meetings, Regulations Governing the Operation and Management of the Audit Committee, Ethical Management Principles, Code of Ethical Conduct, and other relevant regulations of the Company are disclosed on the Company's website (<http://www.egistec.com>) to facilitate inquiries.

- (8) Other important information that would enhance an understanding of the corporate governance practices of the Company that should be disclosed: Nil.
- (9) Matters to be disclosed regarding the implementation of the internal control system
 - 1. Statement on Internal Control: Please refer to Page 98 for further details.
 - 2. If the Company has commissioned certified public accountants to perform examination of its internal control system, it should disclose the examination reports of the certified public accountants: Nil.
- (10) Sanctions imposed on the Company and its internal personnel in accordance with the law, sanctions imposed by the Company against internal personnel who violated the regulations of the internal control system, as well as principal deficiencies, and the state of any efforts for improvements during the last fiscal year and the current fiscal year up to the date of publication of the annual report: no such situation.
- (11) Important resolutions of shareholders' meetings and board meetings during the last fiscal year and the current fiscal year up to the date of publication of the annual report
 - 1. Important Resolutions of the Shareholders' Meeting

Directors Present: The Chairman Steve, Ro and Independent Director Albert, Weng

Date of Meeting	Summary of Important Proposals	Status of Implementation
June 22, 2017	Recognition of the 2016 Annual Business Report and Financial Statements of the Company	The proposal was unanimously passed without objection upon consultation with all shareholders in attendance by the Chairman.
	Recognition of 2016 Earnings Distribution	The proposal was unanimously passed without objection upon consultation with all shareholders in

Date of Meeting	Summary of Important Proposals	Status of Implementation																							
	Plan.	attendance by the Chairman.																							
	Amendment of some clauses in “Operating Procedures for Acquisition or Disposal of Assets” of the Company.	The proposal was unanimously passed without objection upon consultation with all shareholders in attendance by the Chairman.																							
	The issuance of new restricted employee shares.	The proposal was unanimously passed without objection upon consultation with all shareholders in attendance by the Chairman.																							
	The full re-election of the directors of this Company.		Election results	<table border="1"> <thead> <tr> <th data-bbox="1191 627 1339 691">Identity type</th> <th data-bbox="1350 627 1834 691">Username or name</th> </tr> </thead> <tbody> <tr> <td data-bbox="1191 699 1339 722">Director</td> <td data-bbox="1350 699 1834 722">Sen-Chou Lo</td> </tr> <tr> <td data-bbox="1191 730 1339 754">Director</td> <td data-bbox="1350 730 1834 754">Chen-Jung Shih</td> </tr> <tr> <td data-bbox="1191 762 1339 786">Director</td> <td data-bbox="1350 762 1834 786">Ming-To Yu</td> </tr> <tr> <td data-bbox="1191 794 1339 858">Director</td> <td data-bbox="1350 794 1834 858">HEADWAY CAPITAL LIMITED Representative: Gong-Yi Lin</td> </tr> <tr> <td data-bbox="1191 866 1339 930">Director</td> <td data-bbox="1350 866 1834 930">HEADWAY CAPITAL LIMITED Representative: Yi-Pin, Lee</td> </tr> <tr> <td data-bbox="1191 938 1339 962">Director</td> <td data-bbox="1350 938 1834 962">Shih-Hao Ro</td> </tr> <tr> <td data-bbox="1191 970 1339 1026">Independent director</td> <td data-bbox="1350 970 1834 1026">Ming-Jung Weng</td> </tr> <tr> <td data-bbox="1191 1034 1339 1090">Independent director</td> <td data-bbox="1350 1034 1834 1090">Ding- Jung Lu</td> </tr> <tr> <td data-bbox="1191 1098 1339 1153">Independent director</td> <td data-bbox="1350 1098 1834 1153">Ta-Lun Huang</td> </tr> </tbody> </table>	Identity type	Username or name	Director	Sen-Chou Lo	Director	Chen-Jung Shih	Director	Ming-To Yu	Director	HEADWAY CAPITAL LIMITED Representative: Gong-Yi Lin	Director	HEADWAY CAPITAL LIMITED Representative: Yi-Pin, Lee	Director	Shih-Hao Ro	Independent director	Ming-Jung Weng	Independent director	Ding- Jung Lu	Independent director	Ta-Lun Huang	
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	The lifting of non-compete restrictions for newly-elected directors of the Company and their representatives.	<p>The proposal was unanimously passed without objection upon consultation with all shareholders in attendance by the Chairman.</p> <p>The directors for whom the non-compete restrictions were lifted are as follows:</p>																							

Date of Meeting	Summary of Important Proposals	Status of Implementation															
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Ding- Jung Lu	Independent Director of Leadtrend Technology Corporation																

2.Important Resolutions of the Board of Directors' Meetings

Date of Meeting	Important resolutions	Audit Committee	
		Compliance with Article 14 (5) of Securities and Exchange Act	Resolution of Audit Committee
03/21/2017	Proposal 1: Ratification of the issuance of year-end bonus and performance bonus to managers of the Company in 2016.		
	Proposal 2: The 2016 Director Remunerations and Employee Remunerations Distribution Plan reviewed and approved by the Remuneration Committee of the Company.		
	Proposal 3: The 2016 Annual Business Report and Financial Statements of the Company.	V	Proposal passed without amendments
	Proposal 4: The 2016 Earnings Distribution Plan of the Company.	V	Proposal passed without amendments
	Proposal 5: The implementation of the Comprehensive Business Plan by the Company.		
	Proposal 6: The 2017 Operations Plan of the Company.		
	Proposal 7: The setting of the record date for employees of the Company to exchange their stock warrants for ordinary shares to increase capital.		
	Proposal 8: Appointment and remunerations of the certified public accountants for 2017.	V	Proposal passed without amendments
	Proposal 9: Proposal and ratification of the following application for a line of credit with a financial institution for the purpose of replenishing the working capital of the Company.		
	Proposal 10: Amendment of the “Regulations Governing Approval Authority” of the Company.	V	Proposal passed without amendments

	Proposal 11: Amendment of the “Sales and Receipt Cycle” internal control system of the Company.	V	Proposal passed without amendments
	Proposal 12: Issuance of the 2016 “Statement on Internal Control System” of the Company.	V	Proposal passed without amendments
	Proposal 13: Amendment of some clauses in “Operating Procedures for Acquisition or Disposal of Assets” of the Company.	V	Proposal passed without amendments
	Proposal 14: The issuance of new restricted employee shares for 2017.	V	Proposal passed without amendments
	Proposal 15: Human resources affairs regarding the appointment of Howard, Ro as Deputy General Manager of Business Operations Department, and Jimmy, Hsu as Assistant Manager of Project Management Department.		
	Proposal 16: The full re-election of the directors of this Company.		
	Proposal 17: The lifting of non-compete restrictions for newly-elected directors of the Company and their representatives.		
	Proposal 18: Revision of the Measures on the Administration of Remuneration of Directors and Managers of the Company.		
	Proposal 19: Proposed establishment of a branch in Korea.		
	Proposal 20: Proposed investment in Iritech, Inc. for the development of new technologies and integration of the demands of the biometrics market.		
	Proposal 21: Date, venue and reason for convoking 2017 Annual General Meeting of Shareholder, and submission of proposals by shareholders who possess 1% or more shares, period and venue for acceptance of nomination.		

Date of Meeting	Important resolutions	Audit Committee	
		Compliance with Article 14 (5) of Securities and Exchange Act	Resolution of Audit Committee
05/05/2017	Proposal 1: Consolidated financial statements of the Company for Q1 of 2017.	V	Proposal passed without amendments
	Proposal 2: The full re-election of the directors of this Company.		
	Proposal 3: Submission of the reviewed list of candidates nominated for three independent director seats by shareholders with 1% or more shares that was accepted during the 2017 Annual General Meeting of the Company, for deliberation.		
	Proposal 4: Proposed establishment of a subsidiary in Korea.		
	Proposal 5: The implementation of the Comprehensive Business Plan by the Company.		
06/22/2017	Proposal 1: Selection and Appointment of the Chairman		
	Proposal 2: Appointment of members for the third remuneration committee		
08/11/2017	Proposal 1: Consolidated financial statements of the Company for Q2 of 2017.	V	Proposal passed without amendments
	Proposal 2: The setting of the record date for employees of the Company to exchange their stock warrants for ordinary shares to increase capital.	V	Proposal passed without amendments
	Proposal 3: The implementation of the Comprehensive Business Plan by the Company.		
	Proposal 4: Performance bonus payment of the Company for Q2 of 2017.		
	Proposal 5: Director's remuneration distribution of the Company for 2016.		
	Proposal 6: Proposed application for a line of credit with Mega International Commercial Bank by the Company.		
	Proposal 7: Proposed application for line of credit with Yuanta Commercial Bank by the Company.		

	Proposal 8: Ratification application for line of credit with DBS (Taiwan) Commercial Bank by the Company.		
	Proposal 9: Ratification application for line of credit with EnTie Commercial Bank by the Company.		
	Proposal 10: The Company's foreign investment.		
	Proposal 11: Egis Technology (Japan) Inc. Investment		
11/07/2017	Proposal 1: Consolidated financial statements of the Company for Q3 of 2017.	V	Proposal passed without amendments
	Proposal 2: The implementation of the Comprehensive Business Plan by the Company.		
	Proposal 3: The 2017 Audit Plan of the Company.	V	Proposal passed without amendments
	Proposal 4: The amendment of the "Regulations Governing Approval Authority" of the Company.	V	Proposal passed without amendments
	Proposal 5: Revision of the Company's internal control system and related management methods.	V	Proposal passed without amendments
	Proposal 6: Revision of the Company's Rules of Procedure of the Board of Directors and Organizational Rules of the Audit Committee.		
	Proposal 7: Ratification for severance pay of Deputy General Manager Zhizhong, Lin		
	Proposal 8: Proposed appointment of Xinling, Zhang, deputy general manager of the General Manager's Office.		
	Proposal 9: Proposed application for a line of credit with Industrial Bank of Taiwan (renamed as O-bank) by the Company.		
	Proposal 10: The Company's foreign investment.		
	Proposal 1: Amendment of 2017 Regulations on the Issuance of New Restricted Employee Shares.		
	Proposal 2: The Company's issuance of new restricted employee shares for 2017	V	Proposal

12/04/2017			passed without amendments
	Proposal 3: The amendment of the “Regulations Governing Approval Authority” of the Company.	V	Proposal passed without amendments
	Proposal 4: Revision of the Performance Evaluation Procedures of the Board of Directors of the Company		
	Proposal 5: Formulation of 2014 Employee Stock Warrants and 2017 New Share to Restrict Employees’ Rights issued by the Company Capital Increase Record Date for Transferring Issuance of New Shares	V	Proposal passed without amendments
	Proposal 6: The Company’s foreign investment.		
03/05/2018	Proposal 1: Ratification for the issuance of employee remuneration for 2016 and year-end bonus and performance bonus for 2017 to managers of the Company.		
	Proposal 2: The annual salary increase recognition of managers in 2018		
	Proposal 3: 2017 Annual Business Report and Financial Statements of the Company.	V	Proposal passed without amendments
	Proposal 4: Issuance of the 2017 Statement on Internal Control System of the Company.	V	Proposal passed without amendments
	Proposal 5: Issuance of Employee Remuneration and Director Remuneration in 2017.		
	Proposal 6: Earnings Distribution of 2017.	V	Proposal passed without amendments
	Proposal 7: The implementation of the Comprehensive Business Plan by the Company.		
	Proposal 8: Business Plan of 2018		
	Proposal 9: Assessment and renewal of the independence and advisability of certified accountants for 2018.	V	Proposal passed

			without amendments
	Proposal 10: Revision of the Company's Articles of Association.		
	Proposal 11: Amendments to the part clauses in the Acquisition or Disposition of Asset Operations and Operation Approval Authorization of the Company.	V	Proposal passed without amendments
	Proposal 12: Formulation of the Method for Buying Back Shares and Transferring to Employees in 2018 of the Company.	V	Proposal passed without amendments
	Proposal 13: The Company expects to implement the Treasury Shares Method to buy back shares of the Company and transfer to employees.	V	Proposal passed without amendments
	Proposal 14: Handle the seal custodian of the related work of Endorsement Work Procedure through the Company.		
	Proposal 15: Proposed application for a line of credit extension with Correspondent Bank by the Company.		
	Proposal 16: The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	V	Proposal passed without amendments
	Proposal 17: Rectification for the Company's appointment of deputy general manager of the project management office.		
	Proposal 18: Convening the Company's 2018 Annual General Meeting of Shareholder.		
05/08/2018	Proposal 1: Consolidated financial statements of the Company for Q1 of 2018.	V	Proposal passed without amendments
	Proposal 2: Revision of the Company's Regulations for First Share Repurchase and Transfer to Employees.		
	Proposal 3: Proposed application for a line of credit extension with Correspondent Bank by the Company.		

- (12) Main content of any important board resolution passed during the last fiscal year and the current fiscal year up to the date of publication of the annual report that is on record or stated in a written statement for which any director or supervisor has a dissenting opinion: no such situation.
- (13) Summary of any resignation or dismissal of the Chairman, General Manager, Chief Accountant, Chief Financial Officer, Internal Audit Supervisor, and Research and Development Director of the Company in the last fiscal year and the current fiscal year up to the date of publication of the annual report: Nil.

V. Information about Fees to Public Certified Accountants

(1) Rate Table for Information about Fees to Public Certified Accountants

Name of Accounting Firm	Name of Certified Public Accountant		Intermediate Checks	Remarks
KPMG Taiwan	Steven Shih	Philip Tang	Year 2017	

Public Expense Category		Audit Fees	Non-Audit Fees	Total
Scale of Amount				
1	Below NTD 2,000,000		V	
2	NTD 2,000,000 (inclusive) to NTD 4,000,000	V		V
3	NTD 4,000,000 (inclusive) to NTD 6,000,000			
4	NTD 6,000,000 (inclusive) to NTD 8,000,000			
5	NTD 8,000,000 (inclusive) to NTD 10,000,000			
6	NTD 10,000,000 (inclusive) and above			

- (2) Cases wherein the non-audit fees paid to the certified public accountants, the accounting firm of the certified public accountants, and any affiliated enterprises of the accounting firm is equivalent to one quarter or more of the audit fees

Unit: NTD '000

Name of Accounting Firm	Name of Certified Public Accountant	Audit Fees	Non-Audit Fees					Certified Public Accountant Intermediate Checks	Remarks
			System Design	Industrial and Commercial Registration	Human Resources	Others (Note)	Sub-Total		
KPMG Taiwan	Steven Shih	2,360				350	2,710	Year 2017	
	Philip Tang								

Note: Please indicate the non-audit fees in correspondence to the services rendered. Should the non-audit fees in "Others" amount to 25% of the total non-audit fees, the details of the services rendered must be indicated in the notes.

- (3) If the accounting firm was changed and if the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the reduction in the amount of audit fees, the percentage of reduction and the reasons for reduction should be disclosed: No such situation.
- (4) If the audit fees paid are lower than those for the previous year by 15% or more, the reduction in the amount of audit fees, the percentage of reduction and the reasons for reduction should be disclosed: No such situation.

6. Information about Change of Certified Public Accountants: No such situation.

7. Where the Company's Chairman, General Manager, or any Manager in charge of Financial or Accounting Matters has, in the Last Fiscal Year, Held a Position at the Accounting Firm of its Auditing Certified Public Accountants or at an Affiliated Enterprise of such Accounting Firm, the Name and Position of the Person, and the Period during which the Position was Held, shall be Disclosed: no such situation.

8. Transfer of Equity Interests or Pledge or Other Changes of Equity Interests by Directors, Supervisors, Managers and Shareholders Holding More than 10% Equity Stake in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report

(1) Changes in Equity Interests Owned by Directors, Supervisors, Managers, and Major Shareholders:

Position	Name	2017		As of March 31 of 2018	
		Number of shares held Number of Increase (Decrease)	Pledged Shares Number of Increase (Decrease)	Number of shares held Number of Increase (Decrease)	Pledged Shares Number of Increase (Decrease)
Chairman/ General Manager	Sen-Chou Lo	-	700,000	-	-
Director	Chen-Jung Shih	-	-	-	-
Director	Ming-To Yu	-	-	-	-
Director	HEADWAY CAPITAL LIMITED	-	-	-	-
	Representative: Gong-Yi Lin	75,000	175,000	175,000	125,000
Director	HEADWAY CAPITAL LIMITED	-	-	-	-
	Representative: Yi-Pin, Lee (Note 1)	75,000	-	58,600	-
Director	Shih-Hao Ro (Note 1)	34,000	-	-	-
Independent director	Fu-Chan, Wei (Note 2)	-	-	-	-
Independent director	Ming-Jung Weng	-	-	-	-
Independent director	Ding- Jung Lu	-	-	-	-
Independent director	Ta-Lun Huang (Note 1)	-	-	-	-
Chief Operating Officer	Gong-Yi Lin	75,000	-	17,500	-

Position	Name	2017		As of March 31 of 2018	
		Number of shares held Number of Increase (Decrease)	Pledged Shares Number of Increase (Decrease)	Number of shares held Number of Increase (Decrease)	Pledged Shares Number of Increase (Decrease)
Deputy General Manager	Chieh-Pin Su	(111,000)	-	(11,000)	-
Deputy General Manager	Peter, Lin (Note 3)	(16,000)	-	(20,000)	-
Deputy General Manager	Han Chung Seok	-	-	-	-
Deputy General Manager	Nian-Horng Hwang	-	-	(103,000)	-
Deputy General Manager	Shih-Hao Ro	34,000	-	-	-
Deputy General Manager	Xinling, Zhang (Note 4)	-	-	-	-
Deputy General Manager	Jimmy, Hsu (Note 5)	7,000	-	-	-
Chief Technology Officer	Enlin, Jian	-	-	--	-
Chief Financial Officer	Yi-Pin, Lee	-	-	-	-
Deputy Audit Manager	LI XUAN XUAN	(5,000)	-	-	-
Accounting Manager	HUANG FEI MIN	(1000)	-	-	-

Note 1: Appointed on June 22, 2017

Note 2: Dismissed on June 22, 2017

Note 3: Dismissed on September 30, 2017

Note 4: Appointed on November 13, 2017

Note 5: Promoted on March 5, 2018

(2) Relative personal information on transfer of equity and pledge of equity of directors, supervisors, managers and major shareholders: Nil.

9. Relationship Information, if, Among the Top 10 Shareholders, Any One is a Related Party, or is the Spouse or a Relative within the Second Degree of Kinship of Another

March 31, 2017; Unit: Shares; %

Name	Shareholding of the Person		Shareholding of Spouse and Minor Children		Shares Held in the Name of Others		Title, Name and Relationship of Any Related Party Among the Top 10 Shareholders, or the Spouse and Relatives Within The Second Degree of Kinship of Another		Remarks
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
Sen-Chou Lo	2,920,000	4.11	-	-	5,360,400	7.67	HEADWAY CAPITAL LIMITED and ORIENTAL GOLD HOLDINGS LIMITED	Director of HEADWAY CAPITAL LIMITED and ORIENTAL GOLD HOLDINGS LIMITED	-
HEADWAY CAPITAL LIMITED	2,700,000	3.80	-	-	-	-	Sen-Chou Lo	Director of ORIENTAL GOLD HOLDINGS LIMITED	-
Representative: Sen-Chou Lo	2,920,000	4.11	-	-	5,360,400	7.67	ORIENTAL GOLD HOLDINGS LIMITED	ORIENTAL GOLD HOLDINGS LIMITED	-
ORIENTAL GOLD HOLDINGS LIMITED	2,660,000	3.75	-	-	-	-	Sen-Chou Lo	Director of HEADWAY CAPITAL	-
Representative: Sen-Chou Lo	2,920,000	4.11	-	-	5,360,400	7.67	HEADWAY CAPITAL	Director of HEADWAY CAPITAL	-
Standard Chartered Bank, Dunbei Branch acting as custodian for the special investment account of Fidelity Funds	1,229,000	1.73	-	-	-	-	-	-	
EAGLE FRAME LIMITED	1,150,000	1.62	-	-	-	-	-	-	
Representative: HE YAN FU	232,348	0.33	-	-	-	-	-	-	
Citibank acting as custodian for Government of Singapore-GOS-EF M C	1,100,000	1.55	-	-	-	-	-	-	
Citibank (Taiwan) Limited acting as custodian for the special investment account of Nomura International PLC, the customer of	1,046,000	1.47	-	-	-	-	-	-	

Name	Shareholding of the Person		Shareholding of Spouse and Minor Children		Shares Held in the Name of Others		Title, Name and Relationship of Any Related Party Among the Top 10 Shareholders, or the Spouse and Relatives Within The Second Degree of Kinship of Another		Remarks
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
Nomura International (Hong Kong) Limited									
American Bank JP Morgan Chase Bank Taipei Branch acting as custodian for the special investment account of Vanguard Emerging Markets Equity Index Fund of Vanguard Group	970,100	1.37	-	-	-	-	-	-	-
GIC Private Limited based in Singapore	876,000	1.23	-	-	-	-	-	-	-
Representative: Bryan Yeo King Ming	-	-	-	-	-	-	-	-	-
British Cayman Islands JAFCO Asia Technology No. Six Fund Company	846,766	1.19	-	-	-	-	-	-	-

10. Total Number of Shares and Total Equity Stake Held in Any Single Invested Enterprise by the Company, Its Directors, Supervisors and Managers, and Any Companies Controlled either Directly or Indirectly by the Company

December 31, 2017 Unit: Thousand Shares; %

Name of Invested Enterprise	Investment by The Company		Investment by Directors, Supervisors, Managers, or Directly and Indirectly Controlled Companies		Total Investment	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Egis Inc.	25,848	100.00	-	-	25,848	100.00
Egis Technology (Japan) Inc.	5,840	100.00	-	-	5,840	100.00
Egis Tec USA Inc.	1,000	100.00	-	-	1,000	100.00
Egis Technology (Korea) Inc.	10	100.00	-	-	10	100.00

IV. Financing Situation

1. Capital and Shares

(1) Source of Share Capital

1. Source of Share Capital

April 24, 2017; Unit: NTD; Shares

Month Year	Issue Price (NTD)	Authorized Share Capital		Paid-in Share Capital		Remarks		
		Number of Shares (Shares)	Amount (NTD)	Number of Shares (Shares)	Amount (NTD)	Source of Share Capital	Those who Use Non-Cash Property to Offset Share Payment	Others
2007/12	10	100,000	1,000,000	100,000	1,000,000	Share capital acquired from founding assembly 1,000,000	-	Note 1
2008/01	10	12,900,000	129,000,000	12,900,000	129,000,000	Capital injection in cash 128,000,000	-	Note 2
2008/04	10	18,000,000	180,000,000	18,000,000	180,000,000	Capital injection through consolidation 51,000,000	-	Note 3
2008/05	43.27	60,000,000	600,000,000	36,050,000	360,500,000	Capital injection in cash 180,500,000	-	Note 4
2008/05	10	60,000,000	600,000,000	19,650,000	196,500,000	Capital reduction in cash 164,000,000	-	Note 5
2008/05	10	60,000,000	600,000,000	36,050,000	360,500,000	Capital injection by transfer of capital reserves 164,000,000	-	Note 6
2008/07	75.98	60,000,000	600,000,000	37,250,000	372,500,000	Capital injection in cash 12,000,000	-	Note 7
2008/07	23.46	60,000,000	600,000,000	49,629,856	496,298,560	Capital injection through consolidation 123,798,560	-	Note 8

Month Year	Issue Price (NTD)	Authorized Share Capital		Paid-in Share Capital		Remarks		
		Number of Shares (Shares)	Amount (NTD)	Number of Shares (Shares)	Amount (NTD)	Source of Share Capital	Those who Use Non-Cash Property to Offset Share Payment	Others
2010/07	-	60,000,000	600,000,000	49,668,254	496,682,540	Employee stock warrants 383,980	-	Note 9
2013/12	-	60,000,000	600,000,000	52,249,254	522,492,540	Employee stock warrants 25,810,000	-	Note 10
2014/02	75	100,000,000	100,000,000	61,049,254	610,492,540	Capital injection in cash 88,000,000	-	Note 11
2014/04	-	100,000,000	100,000,000	62,044,254	620,442,540	Employee stock warrants 9,950,000		Note 12
2014/08	-	100,000,000	100,000,000	62,064,254	620,642,540	Employee stock warrants 200,000	-	Note 13
2014/12	-	100,000,000	100,000,000	62,149,254	621,492,540	Employee stock warrants 850,000	-	Note 14
2015/02	-	100,000,000	100,000,000	62,154,254	621,542,540	Employee stock warrants 50,000	-	Note 15
2015/08	-	100,000,000	100,000,000	62,178,254	621,782,540	Employee stock warrants 240,000	-	Note 16
2015/12	-	100,000,000	100,000,000	68,469,254	684,692,540	Capital injection in cash 62,910,000	-	Note 17
2016/03	-	100,000,000	100,000,000	68,764,254	687,642,540	Employee stock warrants 2,950,000	-	Note 18
2016/04	-	100,000,000	100,000,000	68,839,254	688,392,540	Employee stock warrants 750,000	-	Note 19
2017/03	-	100,000,000	100,000,000	69,677,754	696,777,540	Employee stock warrants 838,500	-	Note 20
2017/04	-	100,000,000	100,000,000	69,847,754	698,477,540	Employee stock warrants 170,000	-	Note 21

Month Year	Issue Price (NTD)	Authorized Share Capital		Paid-in Share Capital		Remarks		
		Number of Shares (Shares)	Amount (NTD)	Number of Shares (Shares)	Amount (NTD)	Source of Share Capital	Those who Use Non-Cash Property to Offset Share Payment	Others
2017/08	-	100,000,000	100,000,000	69,847,754	698,477,540	Employee stock warrants 1,700,000	-	Note 22
2017/12	-	100,000,000	100,000,000	70,490,540	704,907,540	Employee stock warrants 710,000 Issuance of 5,720,000 new shares to restrict employee rights		Note 23
2018/03	-	100,000,000	100,000,000	70,980,254	709,802,540	Employee stock warrants 4,895,000		Note 23

Note 1: Taipei City Government 12/26/2007 Fu Chan Yeh Shang Tzu No. 09693753210. Note 2: Taipei City Government 02/21/2008 Fu Chan Yeh Shang Tzu No. 09781401110.

Note 3: Taipei City Government 04/29/2008 Fu Chan Yeh Shang Tzu No. 09783518310. Note 4: Taipei City Government 06/03/2008 Fu Chan Yeh Shang Tzu No. 09784640010.

Note 5: Taipei City Government 06/18/2008 Fu Chan Yeh Shang Tzu No. 09785509410. Note 6: Taipei City Government 06/27/2008 Fu Chan Yeh Shang Tzu No. 09786113210.

Note 7: Taipei City Government 07/22/2008 Fu Chan Yeh Shang Tzu No. 09787050510. Note 8: Taipei City Government 08/26/2008 Fu Chan Yeh Shang Tzu No. 09787564510.

Note 9: Taipei City Government 10/29/2010 Fu Chan Yeh Shang Tzu No. 09986101620. Note 10: Ministry of Economic Affairs 01/02/2014 Ching Shou Shang Tzu No. 10201267500.

Note 11: Ministry of Economic Affairs 03/10/2014 Ching Shou Shang Tzu No. 10301036470. Note 12: Ministry of Economic Affairs 04/10/2014 Ching Shou Shang Tzu No. 10301060840.

Note 13: Ministry of Economic Affairs 09/03/2014 Ching Shou Shang Tzu No. 10301182950. Note 14: Ministry of Economic Affairs 12/30/2014 Ching Shou Shang Tzu No. 10301270280.

Note 15: Ministry of Economic Affairs 03/20/2015 Ching Shou Shang Tzu No. 10401042210. Note 16: Ministry of Economic Affairs 09/18/2015 Ching Shou Shang Tzu No. 10401180090.

Note 17: Ministry of Economic Affairs 01/11/2016 Ching Shou Shang Tzu No. 10401280730. Note 18: Ministry of Economic Affairs 04/01/2016 Ching Shou Shang Tzu No. 10501065020.

Note 19: Ministry of Economic Affairs 08/24/2016 Ching Shou Shang Tzu No. 10501209650. Note 20: Ministry of Economic Affairs 04/06/2017 Ching Shou Shang Tzu No. 10601043350.

Note 21: Ministry of Economic Affairs 09/01/2017 Ching Shou Shang Tzu No. 10601125800. Note 22: Ministry of Economic Affairs 12/14/2017 Ching Shou Shang Tzu No. 10601169060.

Note 23: Ministry of Economic Affairs 03/28/2018 Ching Shou Shang Tzu No. 10701030910.

2. Type of Shares

April 1, 2018; Unit: Shares

Type of Shares	Authorized Share Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	Over-the-counter stock
Common stock	70,980,254	29,019,746	100,000,000	

3. Summary of information related to the declaration system: Not applicable

(2) Shareholder Structure

April 1, 2018; Unit: Person; Shares; %

Shareholder Structure	Government Agencies	Financial Institutions	Other Juristic Persons	Individuals	Foreign Organizations and Foreigners	Total
Number of persons	2	2	57	10,658	121	10,840
Number of shares held	240,000	695,845	2,080,631	46,318,761	21,645,017	70,980,254
Shareholding ratio	0.34	0.98	0.93	65.25	64.93	100.00

(3) Distribution of Shareholders' Equity

April 1, 2018; Unit: Person; Shares; %

Shareholding Level	Number of Shareholders	Number of shares held	Shareholding Ratio
1 to 999	387	62,747	0.09
1,000 to 5,000	8,907	16,620,792	23.43
5,001 to 10,000	839	6,544,625	9.22
10,001 to 15,000	201	2,578,031	3.63
15,001 to 20,000	152	2,784,560	3.92
20,001 to 30,000	144	3,643,789	1.33
30,001 to 40,000	57	2,049,860	2.89
40,001 to 50,000	24	1,109,982	1.56
50,001 to 100,000	66	4,608,164	6.49
100,001 to 200,000	24	3,315,140	4.67
200,001 to 400,000	13	3,309,818	4.66
400,001 to 600,000	11	5,201,618	7.33
600,001 to 800,000	4	2,828,262	3.98
800,001 to 1,000,000	4	3,517,866	4.96
1,000,001 shares and more	7	1,2805,000	18.04
Total	10,840	70,980,254	100

(4) List of Principal Shareholders

Name, number of shares held and shareholding ratio of shareholders with equity stake of five percent (5%) or more or top ten shareholders in terms of equity stake

April 1, 2018; Unit: Shares; %

Name of Principal Shareholder	Shares	Number of shares held	Shareholding Ratio
Sen-Chou Lo		2920000	4.11%
HEADWAY CAPITAL LIMITED		2700000	3.80%
ORIENTAL GOLD HOLDINGS LIMITED		2660000	3.75%
Standard Chartered Bank, Dunbei Branch acting as custodian for the special investment account of Fidelity Funds		1229000	1.73%
EAGLE FRAME LIMITED		1150000	1.62%
Citibank acting as custodian for Government of Singapore-GOS-EFM C		1100000	1.55%
Citibank (Taiwan) Limited acting as custodian for the special investment account of Nomura International PLC, the customer of Nomura International (Hong Kong) Limited		1046000	1.47%
American Bank JP Morgan Chase Bank Taipei Branch acting as custodian for the special investment account of Vanguard Emerging Markets Equity Index Fund of Vanguard Group		970100	1.37%
GIC Private Limited based in Singapore		876000	1.23%
British Cayman Islands JAFCO Asia Technology No. Six Fund Company		846766	1.19%

(5) Market Price, Net Value, Earnings and Dividends Per Share and Relevant Information for the Last Two Fiscal Years

Unit: NTD; Thousand Shares

Year		2016	2017	As of March.31.2018	
Market price per share	Maximum	296.00	319.50	248.00	
	Minimum	124.50	165.00	126.00	
	Average	185.49	238.41	175.88	
Net value per share	Before distribution	22.63	32.12	35.28	
	After distribution	22.63	32.12	35.28	
Earnings per share	Weighted average number of shares		68,821	70,568	70,523
	Earnings per share	Before retrospective adjustment	1.66	8.50	3.07
		After retrospective adjustment	1.63	8.41	
Dividends per share	Cash dividends		-	-	-
	Stock grants	Stock dividends from retained earnings	-	-	-
		Stock dividends from capital reserves	-	-	-
	Accumulated unpaid dividends		114,026		-
Analysis of return on investment	Price-earnings ratio		111.74	28.04	
	Dividend yield		0	0	
	Cash dividend yield		0	0	

(6) Dividend Policy of the Company and Implementation Status

1. The dividend policy of the Company is as follows:

After the closing of accounts for the fiscal year, if there is net profit after tax for the current period, the Company shall first pay the taxes, make up for accumulated losses (including adjustment of undistributed earnings amount), and then set aside 10% of the said profits as legal reserve; where such legal reserve amounts to the total paid-in capital of the Company, this provision shall not apply. The Company shall also set aside or reverse another sum as special reserve in accordance with the law or regulations of competent authorities. The Board of Directors shall draft an earnings distribution proposal for the remaining earnings amount, as well as the undistributed earnings at the beginning of the period (including the adjustment of undistributed earnings amount), and submit it for

resolution at the shareholders meeting for the distribution of dividends and bonuses to the shareholders.

The Company's dividend policy is in line with the current and future development plans, with the investment environment, capital requirements and domestic and international competition, as well as the interests of shareholders and other such factors taken into account; and with reference to the general standard of dividends issuance in the same industry and capital market as the basis for dividends issuance. Dividends and bonuses may be distributed to shareholders in the form of cash or shares, of which cash dividends shall be no less than 20% of the total shares.

2. Shareholder dividend distribution proposed for the current fiscal year:

The surplus distribution in 2017 of the Company was formulated as shown in the following table by the Board of Directors on March 5, 2018. After the resolution of the regular shareholders meeting was passed on May 30, 2018, the distribution will be set another base date for ex-dividend by the Board of Directors.

2017 Earnings Distribution Table

Unit: NTD

Item	Amount
Undistributed earnings at the beginning of period	102,623,835
Actuarial loss included in retained earnings	0
Undistributed earnings after adjustment	0
Net profit after tax for current period	593,191,299
Less: Appropriation to legal reserve	59,319,130
Earnings available for distribution in current period	636,496,004
-- Stock dividends (distribution of NTD--per share)	0
-- Cash dividends (distribution of NTD 4.25 per share)	301,462,080
Undistributed earnings at the end of period	335,033,924

Note: The cash dividends shall be rounded down to the nearest dollar, and the total sum of fractional amounts less than a dollar shall be returned to the Company and recorded under the item of Other Revenue.

3. Explanations shall be provided where major changes are expected in the dividend policy: no such situation.

(7) Effect of Stock Grants Proposed in this Shareholders' Meeting on the Business Performance and Earnings Per Share of the Company

The Board of Directors of the Company passed the resolution on non-distribution of dividends from the earnings of 2017 on March 5, 2018, and it has not announced the financial forecast information for 2018. Therefore, this is not applicable.

(8) Employee and Directors' Remunerations

1. The percentages and ranges of employee, directors' and supervisors' remunerations stated in the Articles of Incorporation of the Company:

If the Company makes a profit in the fiscal year (the so-called profit refers to the pre-tax profit before the deduction of remunerations payable to the employees and directors), it shall set aside no less than 5% of the profits for employee remunerations and no more than 1% for director remunerations. However, if the Company has accumulated losses (including the adjustment of undistributed earnings amount), the amount for offsetting should first be retained.

The employee remunerations stated above may be paid in the form of shares or cash, and the payee shall include the employees of subsidiaries who meet the conditions set by the Board of Directors. The director remunerations stated above may only be paid in the form of cash.

The two items above shall be handled according to the resolutions of the Board of Directors and reported at the shareholders meeting.

2. The basis for estimating the amount of employee, director, and supervisor remunerations, for calculating the number of shares to be distributed as employee remunerations, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

If there are any changes to the amount of employee and director remunerations in the earnings distribution plan approved in the shareholders' meeting, the difference in amount shall be accounted for as a change in accounting estimate and listed as profit and loss in the fiscal year that the resolution was passed in the shareholders' meeting. It shall not affect the financial reports that have been recognized.

3. Remuneration distribution approved by the Board of Directors:

- (1) The amount of any employee remunerations distributed in cash or stocks and remunerations for directors and supervisors. If there is any discrepancy between that amount and the estimated figure for the fiscal year in which these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed:

The Company's Board of Directors passed to distribute according to the provisions of the Company Law and Article 24 of the Company's Articles of Association on March 5, 2018, among which 5% of the net profit before tax, that is, NTD 38,940,000 shall be set aside as employee remunerations and 1% of the net profit before tax, that is, NTD 7,780,000 shall be set aside as director remunerations; the remunerations shall be distributed in the form of cash. The differences from the annual financial statements of 2017 are 47,365,577 and 7,786,785 respectively, which are adjusted in accordance with the distribution demand for the actual operations and the distribution ratio of the Company Law of the Company's Articles of Association. The difference will be listed as the 2017 profit and loss.

(2) The amount of employee remunerations distributed in stocks, and the size of that amount as a percentage of the sum of the net profit after tax stated in the parent company only financial reports or individual financial reports for the current period and total employee remunerations: the employee remunerations of the Company in 2016 shall be distributed in cash. Therefore, this is not applicable.

4. The actual distribution of employee and director remunerations for the previous fiscal year (including number of shares, monetary amount, and stock price), and if there is a difference between these and those recognized employees and directors remuneration, the difference, reason and handling situation should be stated clearly:

Fiscal Year	2016	
	Resolution amount of the Board of Directors	Actual amount issued
Employee Remunerations	8,429,652	8,429,652
Directors Remuneration	1,685,930	1,600,000

The difference between the actual number of directors remuneration issued in 2017 and the amount decided by the Board of Directors is mainly to cooperate the actual operation requirements. The amount of distribution revised is issued after the resolutions of the Company's Remuneration Committee and the Board of Directors.

(9) The Company's share repurchase situation: no such situation.

Item	Number of Times	First time
Date of Board Resolution		03/05/2018
Purpose of Repurchase		Transfer of shares to employees
Period of Repurchase		03/08/2018 – 05/05/2018
Expected Quantity and Categories of Share Repurchase		600,000 shares of ordinary share
Total Amount of Repurchased Shares		78,875,372 元
Average Repurchase Price Per Share		131.46 元
Quantity of Shares Sold and Transferred		0 share
Cumulative Shares of the Company Held		600,000 share
Proportion of Cumulative Shares of the Company Held to Total Quantity of Shares Issued		0.85%

2. The Company's Debt Repayment Situation: no such situation.
3. Special Shares Administration Situation: no such situation.
4. Overseas Depository Receipt Administration Situation: no such situation.

5. Employee Stock Warrants Administration Situation

- (1) The annual report shall disclose unexpired employee stock warrants issued by the Company in existence as of the date of publication of the annual report, and shall explain the effect of such warrants upon shareholders' equity.

March 31, 2018

Type of Employee Stock Warrant	2012 employee stock warrants		
Effective Date of Declaration	Not applicable		
Issue Date	December 24, 2012	July 2, 2013	November 14, 2013
Duration	Five years	Five years	Five years
Number of Issuing Units (Note 1)	661 units	492 units	345 units
Ratio of Subscribable Shares to Total Issued Shares	0.96%	0.71%	0.50%
Duration of Subscription	The execution of subscription rights by the warrant holder shall be in accordance with the specific content stipulated in the subscription rights contract, and the said rights shall be exercised before the expiration of the employee stock warrants.		
Method of Contract Performance	Delivery of newly issued shares		
Period and percentage (%) in which subscription is restricted	<p>They are divided into two forms: Where the warrant holder has made special contributions to the Company, he/she may immediately exercise the subscription rights upon being granted the employee stock warrants (stock warrants delivery date). The warrant holder may exercise the subscription rights based on the following timeline upon being granted the employee stock warrants. The warrant holder may subscribe to 50% of shares after one year The warrant holder may subscribe to 100% of shares after two years</p>		
Number of Shares Received from Exercise of Subscription Rights	661,000 shares	437,000 shares	325,000 shares
Monetary Amount of Shares Subscribed	NTD 6,610,000	NTD 4,370,000	NTD 3,250,000
Number of shares that have not been subscribed (Note 2)	-	-	-
Subscription Price Per Share of Unsubscribed Shares	-	-	-
Number of Unsubscribed Shares As a Percentage of Total Shares Issued (%)	-	-	-
Effect on Shareholders' Equity	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain

	necessary talents, improve cohesion and bring positive benefits to the development of the Company.	necessary talents, improve cohesion and bring positive benefits to the development of the Company.	necessary talents, improve cohesion and bring positive benefits to the development of the Company.
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Note 1: 1,000 shares of common stocks can be subscribed for stock warrant of every unit.

Note 2: The number of unsubscribed shares refers to the balance of issued shares after deducting the number of subscribed shares and the number of expired and canceled shares.

March 31, 2017

Type of Employee Stock Warrant	2013 employee stock warrants		2014 employee stock warrants	
Effective Date of Declaration	Not applicable		November 25, 2014	
Issue Date	November 14, 2013	March 14, 2014	December 18, 2014	November 3, 2015
Duration	Five years	Five years	Five years	Five years
Number of Issuing Units (Note 1)	1,410 units	403 units	1,592 units	408 units
Number of Shares Subscribable as a Percentage of Total Issued Shares	2.05%	0.59%	2.31%	0.59%
Duration of Subscription	The execution of subscription rights by the warrant holder shall be in accordance with the specific content stipulated in the subscription rights contract, and the said rights shall be exercised before the expiration of the employee stock warrants.		The execution of subscription rights by the warrant holder shall be in accordance with the specific content stipulated in the subscription rights contract, and the said rights shall be exercised before the expiration of the employee stock warrants.	
Method of Contract Performance	Delivery of newly issued shares		Delivery of newly issued shares	
Period and percentage (%) in which subscription is restricted	<p>They are divided into two forms: Where the warrant holder has made special contributions to the Company, he/she may immediately exercise the subscription rights upon being granted the employee stock warrants (stock warrants delivery date). The warrant holder may exercise the subscription rights based on the following timeline upon being granted the employee stock warrants. The warrant holder may subscribe to 50% of shares after two years The warrant holder may subscribe to 100% of shares after three years</p>		<p>The warrant holder may exercise his/her subscription rights based on the following periods and percentages granted by the stock warrants two years after the employee stock warrants are granted: (1) After two years since the employee stock warrants are granted, the warrant holder can subscribe to an accumulated percentage of 50% of shares. (2) After three years since the employee stock warrants are granted, the warrant holder can subscribe to an accumulated percentage of 100% of shares.</p>	
Number of Shares Received from Exercise of Subscription Rights	1,390,000 shares	355,000 shares	1,152,000 shares	97,000 shares
Monetary Amount of Shares Subscribed	NTD 13,900,000	NTD 3,550,000	NTD 113,126,400	NTD 12,336,460
Number of shares that have not been subscribed (Note 2)	-	-	300,000 shares	291,000 shares
Number of Invalid Shares from Departure	-	15,000 shares	140,000 shares	20,000 shares
Subscription Price Per Share of Unsubscribed Shares	-	-	NTD 98.20	NTD 127.18
Number of Unsubscribed Shares As a Percentage of Total	-	-	0.42%	0.40%

Shares Issued (%)				
Effect on Shareholders' Equity	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents, improve cohesion and bring positive benefits to the development of the Company.	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents, improve cohesion and bring positive benefits to the development of the Company.	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents, improve cohesion and bring positive benefits to the development of the Company.	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents, improve cohesion and bring positive benefits to the development of the Company.

Note 1: 1,000 shares of common stocks can be subscribed for stock warrant of every unit.

Note 2: The number of unsubscribed shares refers to the balance of issued shares after deducting the number of subscribed shares and the number of expired and canceled shares.

(2) Names, and Status of Acquisition and Subscription of Managers who have Acquired Employee Stock Warrants and of Employees who Rank Among the Top Ten in Terms of the Number of Shares to which they have Subscription Rights through Employee Stock Warrants Acquired, Cumulative to the Date of Publication of the Annual Report

December 31, 2017 Unit: Shares; NTD; %

	Position	Name	Number of Subscription Shares Acquired	Percentage of Number of Subscription Shares Acquired to Total Issued Shares	Subscribed				Not Yet Subscribed			
					Subscribed Number of Shares	Subscribed Subscription Shares Price	Subscribed Amount of Shares	Percentage of Number of Shares Subscribed to Total Issued Shares	Not Yet Subscribed Number of Shares	Shares Not Yet Subscribed Price	Not Yet Subscribed Amount of Shares	Percentage of Number of Shares Not Yet Subscribed to Total Issued Shares
Managers	Chief Operating Officer	Todd, Lin	2,460,000	3.47	1,245,000 792,500	10/ 98.2 127.18	12,450,000/ 77,823,500	2.87	272,500/ 150,000	98.20/ 127.18	6,759,500 9,077,000	0.60
	Deputy General Manager	Sky, Su										
	Deputy General Manager	Han Chung Seok										
	Deputy General Manager	David, Hwang										
	Chief Technology Officer	Enlin, Jian										
	Financial Manager	Kathy, Huang										
	Deputy Audit Manager	Iris, Lee										
	Chief Financial Officer	Yi-Pin, Lee										
	Deputy General Manager	Howard, Ro (Note 1)										
	Deputy General Manager	Peter, Lin (Note 2)										
	Deputy General Manager	Xinling, Zhang (Note 3)										
Deputy General Manager	Jimmy, Hsu (Note 4)											
Employees	Department of General Affairs Manager	Shu-Ping Hsieh	1,073,000	1.51	848000 200,000	10/ 98.2	8,480,000 19,640,000	1.48	25,000	98.2	2,455,000	0.04
	Senior Customer Manager	Hsing-Chia Liao										
	Deputy General Engineer	Jung-Chien Li										
	Technical Manager	Heng-Hsin Chung (Note 5)										
	Technical Manager	Chun-Feng Kao										
	Deputy General Engineer	Kuo-Neng Lan										
	Senior Manager	Chi-Chieh Ling										
	Senior Manager	Feng-Chang Chang										
	Project Manager	Wei-Jung Wang										

Note 1: Appointed on April 1, 2017.

Note 2: Dismissed on September 31, 2017

Note 3: Appointed on November 7, 2017.

Note 4: Promoted on March 5, 2018.

Note 5: Left the Company on January 31, 2017.

(6) New Restricted Employee Shares Administration Situation: no such situation.

(1) Handling situation of new restricted employee shares

December 31, 2017

(7)

Type of new restricted employee shares (Note 1)	The first time (period) New restricted employee shares
Effective Date of Declaration	December 1, 2017
Issuing Date Note 2	December 4, 2017
Number of new restricted employee shares	572,000
Issuing Price	0
Ratio of new restricted employee shares issued in total shares issued	0.81%
Vesting Condition of new restricted employee shares	<p>Vesting Condition: This is divided into two categories, A and B, and the vesting condition shall be based on personal performance.</p> <p>1. Vesting conditions of Type A:</p> <p>(1) Employees who are still serving the Company one year after the expiration date of distributing new shares to restrict employee rights, the employees whose personal performance has met the performance targets set by the Company in the year prior to the expiration date, and the employees who have made due contributions during the said period will receive 1/3 of the shares.</p> <p>(2) Employees who are still serving the Company two years after the expiration date of distributing new shares to restrict employee rights, the employees whose personal performance has met the performance targets set by the Company in the year prior to the expiration date, and the employees who have made due contributions during the said period will receive 1/3 of the shares.</p> <p>(3) Employees who are still serving the Company three years after the expiration date of allotment of new restricted employee shares, whose personal performance in the year prior to the expiration date has met the performance targets set by the Company, and who have made due contributions during the said period will receive 1/3 of the shares.</p> <p>2. Vesting conditions of Type B:</p> <p>(1) Employees who are still serving the Company in the same year after the expiration date of distributing new shares to restrict employee rights, whose personal</p>

	<p>performance has met the performance targets set by the Company in the year prior to the expiration date, and who have made due contributions during the said period will receive 1/3 of the shares.</p> <p>(2) Employees who are still serving the Company one year after the expiration date of distributing new shares to restrict employee rights, whose personal performance has met the performance targets set by the Company in the year prior to the expiration date, and who have made due contributions during the said period will receive 1/3 of the shares.</p> <p>(3) Employees who are still serving the Company two years after the expiration date of distributing new shares to restrict employee rights, whose personal performance has met the performance targets set by the Company in the year prior to the expiration date, and who have made due contributions during the said period will receive 1/3 of the shares.</p> <p>3. According to the Company's performance appraisal management measures, the results of performance appraisal were rated as A (excellent), B (above average), C (average) and D (need to improve). The aforesaid personal performance-based vesting condition refers to the personal performance meeting the targeted performance of the Company, and the performance result must be A (excellence) or B (above average), etc. It is equal to achieve the contribution degree of the position when meeting result of the performance.</p>
<p>Restricted right of new restricted employee shares</p>	<ol style="list-style-type: none"> 1. Employees are not allowed to sell, pledge, transfer, give, pledge or otherwise dispose of the said new restricted employee shares after the allotment of new shares and before the fulfillment of the vesting conditions. 2. The attendance, proposal, speech, voting and voting rights, etc. related to the shareholders meeting shall be carried out in accordance with the custodial trust contract. 3. In addition to the aforementioned trust provisions, with regard to the new restricted employee shares allotted to employees based on this Regulations, prior to the fulfillment of vesting conditions, the other rights, which include but are not limited to, the rights to the allotment of dividends, bonuses and capital reserve, subscription rights and voting rights for cash injection, shall be the same as the ordinary shares issued by the Company, without any restrictions imposed.

Custody situation of new restricted employee shares	Taishin International Commercial Bank conducts trust custody operations
After employees obtain or subscribe new shares, the handling method not achieving vesting conditions	The employee's total number of shares that have not achieved the vesting conditions shall be withdrawn by the Company at no cost and revoked thereafter.
New shares to restrict employees' right have collected or purchased Number of shares	0
Number of new shares to relieve restricted right	116,600
Number of new shares failing to relieve restricted right	455,400
Rate of number of new shares failing to relieve restricted right in total number of shares issued	064%
Influence on shareholders' equity	<p>If all vesting conditions are met, the estimated maximum possible expensable amount is approximately NTD 195,000,000. From 2017 to 2020, the estimated maximum possible expensable amount is approximately NTD 70,005, NTD 84,329, NTD 32,666 and NTD 8,000 respectively every year, and the maximum possible amount reduced of surplus is NTD 1.01, NTD 1.21, NTD 0.47 and NTD 0.12 respectively.</p> <p>2.The Company estimates that the revenue and profit for the next few years will continue to grow, so the dilution of the Company's earnings per share for the next few years is still limited upon overall evaluation, which shall have significant impact on the existing shareholders' equity.</p>

(2)

Managers obtaining new restricted employee shares and name as well as obtaining situation of top 10 employees in obtaining new shares

December 31, 2017

	Position (Note 1)	Name	Number of new restricted employee shares obtained	Ratio of number of new restricted employee shares obtained in total shares issued Ratio (Note 4)	Has relieved restricted right (Note 2)				Failed to relieved restricted right (Note 2)			
					Number of shares have relieved restriction	Issue Price	Issue Amount	Ratio of number of shares have relieved restriction in total shares issued (Note 4)	Number of shares failed to relieve restriction	Issue Price	Issue Amount	Ratio of number of shares failed to relieve restriction in total shares issued (Note 4)
Manager	Chief Financial Officer	Yi-Pin, Lee	365,000		106,600	0		258,400	0	0		
	Deputy General Manager	Howard, Ro										
	Deputy General Manager	David, Hwang										
	Associate	Jimmy, Hsu										
	Accounting Manager	Kathy, Huang										
Employee - Note 3	Deputy Chief Engineering	Junqin, Ceng	105,000	0.15	10,000	0		95,000	0	0		
	Senior Manager	Hai-cha, Ro										
	Senior Project Manager	Wen-jie, Lee										
	Senior Technology Manager	Yue-hua, Qiu										
	Operation Manager	Zi-jing, Qiu										
	Technical Manager	Wen-ge, Weng										
	Technical Manager	Han Chung Seok										
	Technical Manager	Pin-yu, Chen										
	Deputy Chief Engineering	Tong-long, Fu										
	Technical Manager	You-ting, Ro										

Note 1: Including managers and employees (it shall indicate persons who have left or died), individual names and job titles should be disclosed, but the situation of obtaining or subscription shall be disclosed in the way of summarization.

Note 2: How many columns are adjusted depending on the actual times of issuance.

Note 3: Top 10 employees obtaining new restricted employee shares refer to the employees other than managers.

Note 4: Total shares issued refer to number of shares listed in change registration document of Ministry of Economic Affairs.

7. Situation of Mergers and Acquisitions (Including Mergers, Acquisitions and Demergers)

- (1) Any issuance of new shares in connection with a completed merger or acquisition or with the acquisition of any other company's shares during the last fiscal year or during the current fiscal year up to the date of publication of the annual report: no such situation.
- (2) Any issuance of new shares in connection with a merger or acquisition or with the acquisition of shares of any other company based on a resolution passed by the Board of Directors during the last fiscal year or during the current fiscal year up to the date of publication of the annual report: no such situation

5. Operational Highlights

1. Business Activities

(1) Scope of Business

1. Principal Business Activities

- (1) I301010 Information Software Services
- (2) I301020 Data Processing Services
- (3) I301030 Electronic Information Supply Services
- (4) I501010 Product Design
- (5) F401010 International Trade
- (6) ZZ99999 Besides those that are subject to special approval, all businesses that are not prohibited or restricted by business law

2. The Proportion of Primary Business Products (Services)

Unit: NTD Thousands

Fiscal Year Product Items	2016		2017	
	Net Operating Revenue	Percentage (%)	Net Operating Revenue	Percentage (%)
Biometric Recognition Sensor IC and its Applications	1,662,961	100%	4,724,571	100%
Data Security and Protection and its Applications	4,728	0%	3,969	0%
Revenue from Technical Services	5,579	0%	3,368	0%
Total	1,673,268	100%	4,731,908	100%

3. Current Products (Services) Item

The Company is primarily committed to the design, development, production, and sale of capacitive fingerprint sensor chips. In addition, the Company has integrated the design of fingerprint sensor chips and software through the integration of the IC solutions company; the result of being an IC design and solutions company has as led to the integration of fingerprint sensor hardware. Current primary products:

(1) Fingerprint Sensor Biometric Recognition Sensor IC and its Applications

The Company provides a variety of chips and modules with different specifications to cater to the demands of different customers. The fingerprint sensors designed by the Company are able to significantly reduce the number of components while remaining small and compact. This makes it easier to integrate into mobile devices that are small, slim, and lightweight. Other than hardware chips, the Company also provides various application software for fingerprint recognition.

(2) Revenue from Technical Services

Besides providing our customers with hardware and software, the Company also provides technical services such as software testing and development of sensor chips, to satisfy the needs of our customers.

2. Plans for the Development of New Products (Services)

Looking to the future, in addition to providing more advanced products in the original field of capacitive fingerprint sensor chips, the Company also plans to develop more diverse hardware and software integration solutions in various fields of application based on its patented fingerprint recognition technology. The details are specified as follows:

(1) Passive capacitive fingerprint sensor

The Company provides a variety of chips and modules with different specifications or various customer needs, also plans to develop various chip schemes with less processing cost and sensitivity, and positively enlarges the product combinations to cater to the demands of different customers.

(2) Fingerprint sensor under the screen

Considering the latest trend of high end screens mobile phones, the Company set out to develop the optical fingerprint sensor chip series that can be used for fingerprint sensing under OLED screens This enables the use of fingerprint recognition technology without the fingerprint sensing button while at the same time increasing screen ratio and optimizing user experience.

(3) 3D Facial Recognition

Considering the trend of facial recognition triggered by the launch of Apple's iPhone X, the Company plans to develop a facial recognition based on the 3D sensing technique and provide a wafer program with a cost

advantage. This will enable customers to import product applications and accelerate time to market.

(4) Iris Identification

In response to the diversified development of biological identification needs, the Company will carry out the research and development of iris recognition to match the target of expanding product mix.

(5) Integrating Application Solutions

A. Financial Payments

Due to the rapid development and popularity of wireless networks, a variety of physical, virtual, online and offline financial transactions and payment methods are also emerging. In order to strengthen the security of transactions, the major international financial institutions are actively looking for secure, fast and easy personal identification tools as anti-counterfeit security mechanisms for personal financial transactions or payments. The Company is also in active discussions with major international financial security institutions on collaborations in the development of integrated solutions with fingerprint or biometric recognition as integrated solutions of anti-counterfeit security for financial payments.

B. Smart Cities

The development of the Internet will also create a huge demand for “smart cities”. For instance, the various basic information construction in urbanization, such as: Second-generation identity card, cloud government, home and city security, logistics management, and information services can be incorporated into the Company’s solutions as personal identification methods, giving rise to huge business opportunities for the future.

C. Other Applications

The field of application of fingerprint or biometric recognition is not only limited to high-security-level anti-counterfeit security mechanisms. Fingerprint and other biometric recognition can also have personal privacy protection functions, such as: password management of various accounts, database management, mailbox management, etc. Furthermore, due to the uniqueness of fingerprint, it can even be introduced into all kinds of consumer electronics products, providing fast and convenient

personalized management functions for one's daily life. These include: all devices that provide for personal needs such as wearable devices, access control, vehicle anti-theft devices, smart TV, etc.

2. Industry Profile

1. Current State of the Industry and Future Developments

(1) Overview of the Biometric Recognition System Industry

Biometric recognition is a technology that identifies a user based on the uniqueness of their organs and tissues such as fingerprints, face, voice, iris, and even DNA molecules. In the development of past security recognition products, passwords were the most extensively used technology. However, the consumer must face the risk of forgetting the password or of a data breach. Later on, even though the development of IC cards has allowed consumers to avoid problems pertaining to memory, they still have to worry about the after-effect of losing the IC cards. Biometric recognition primarily recognizes the physiological traits of the human body, because these traits that majority of people outwardly possess are different and are thus highly distinguishable. In addition, as these physiological traits are found on the bodies of the users, it is very convenient.

According to the forecast from ABI Research in February of 2017, Global biometrics market will exceed \$10B by 2021, and ABI Research indicated that the new industries will use biometrics in multifactor authentication (MFA), point-of-sale (PoS) systems, mobile payment and passive authentication in the future.

In the next few years, biometric recognition will be mainly used in the sectors of banks and personal finances, and then in government and security agencies. Other uses for biometric recognition include: Voice recognition for call center customer services, iris and face recognition targeted at ATMs and applications on smart phones, as well as fingerprint and vein recognition targeted at personalized devices.

Currently, the most mature products in the mainstream development of biometric recognition products are fingerprint recognition products. The components of fingerprint recognition are small, have low energy consumption requirements, and can be used in different environments, thus resulting in more usage opportunities.- The introduction of Apple's iPhone 5S especially triggered the rapid development of fingerprint recognition, and it

has become a basic device for middle- and high-end smartphones in smartphone applications. In 2017, global shipments of smartphones equipped with fingerprint sensors reached 920 million and a penetration rate of approximately 64%. It is estimated that by 2020, shipments of smartphones equipped with fingerprint sensors will reach 1.25 billion, and the penetration rate will exceed 75%. (Source: DIGITIMES Research 2017)

Viewing the global trend, the shipments of phones with high screen-to-body ratio account for more than 100 million in 2017. All manufacturers are making every effort to research and development fingerprint recognition under the screen since it can increase the screen-to-body ratio.

In addition, the launch of the Apple iPhone X in 2017 gave rise to the wave of 3D facial recognition. It is expected that

Android mobile phones will also be incorporated into the face recognition unlock payment function. However, the face recognition still has security concerns, and the market generally believes that the multiple factors of face, fingerprints, irises, and passwords will be the main trend for future application scenarios where financial or other security standards is high.

With the advancement of biometrics technology and the rapid development of applications such as mobile devices and mobile payments, biometric technologies will rapidly enter human life in a more diversified manner.

(2) Semiconductor Market Overview and IC Design Industry

The semiconductor industry is a key industry of industrial equipment, information PC, network communications, and consumer products application, and also one of the dominant basic industries. With the flourishing development of 3C (Computer, Communications, Consumer) products and the demands for smart and low-energy consuming industrial products, product life cycles have been shortened and further accelerated. The industry has also been developing towards diversification and the enrichment of products. Along with the innovation and growth of new products, there will be a boost in the demands for semiconductors and stability in the development of the market in the future.

The local semiconductor supply chain, which is gradually growing in maturity, has a complete system in the division of labor in the upstream, midstream, and downstream sectors. This has allowed IC design companies

to focus on designing the IC, and tasking the manufacturing of the IC to the plant for the production of the unfinished wafer. This wafer is then sent to the packaging plant for cutting and packaging, after front-end testing is conducted. Lastly, the wafer is sent to a professional IC test factory for back-end testing and the end product is then completed. This also creates a favorable environment for the development of the IC design industry.

Typically, IC components can be categorized into two main types: digital logic ICs and analog ICs. The digital IC transmits a range of non-continuous signals using 0 and 1, mostly used for handling digital information such as calculations, control, and storage etc., with an emphasis on size, speed, and power consumption (Process Driven). Analog ICs are responsible for the continuous range of natural signals such as the physical quantities of light, heat, electricity, speed, and pressure etc., and they act as a medium that bridges the aforementioned physical information to digital electronic systems. At the same time, the effectiveness and cost of the chip can be optimized through the manufacturing process and the cooperation between the physics of the circuit design and semiconductor components. As these signals determine the quality of the final display, the manufacturing of the analog IC is more focused on the traits of the components (Design Driven), such as, reliability, stability, power consumption, power conversion rate, and the ability to control the electric pressure and current etc.

(3) Fingerprint Recognition IC

Biometric recognition technology has been undergoing development for a long time. As the Internet applications become increasingly popular and the age of electronic transactions arrives, the traditional way of confidentiality and authentication, for example, the use of Personal Identification Numbers, can no longer guarantee authentication security. The users not only have to remember many sets of passwords which may lead to errors, but also take the risk of passwords being stolen or hacked if password authentication is the only security measure. However, the characteristic of a physiological password that identifies a person based on their unique biological traits is difficult to be replicated or stolen. Thus, it can truly and effectively resolve the security issues regarding authentication.

After Apple launched the iPhone 5S containing fingerprint recognition chips in September 2013, the subsequent models of iPhones have retained this function since Apple integrated fingerprint identification as a safety

precaution. Other than Apple, international giants like Samsung, Sony, Huawei, OPPO, Vivo, and Xiaomi have competed to launch smartphones with fingerprint recognition functions.

Fingerprint recognition has become the basic equipment for middle- and high-end smart phones. In 2017, the global shipment of smartphones equipped with fingerprint sensors reached 920 million, and the penetration rate was approximately 64%. In 2020, the shipments of smartphones with fingerprint sensors will reach 1.25 billion, and the penetration rate will exceed 75% (Source: DIGITIMES Research 2017). With the global shipments of smartphones growing year by year, the multiple needs of the manufacturers in the Mainland to expand adoption and mobile payment are heating up, while the market demands for fingerprint sensors continues to grow strongly. Looking at the overall fingerprint sensor market, it is estimated that the total output value will reach US\$12.82 billion by 2023, and the compound annual growth rate will reach 15.7% (Source: BIS Research 2017).

2. Relationship between the Upstream, Midstream, and Downstream Sectors of the Industry

In Taiwan's IC industry, the relationship between the upstream, midstream, and downstream sectors can be categorized into IC design companies in the upstream, wafer plants in the midstream, and IC packing and testing factories in the downstream. Many international companies manage their businesses through an upstream-downstream vertical integration model, controlling the designing, manufacturing, packaging, testing and even system products. However, with the rapidly changing environment of the industry and the gradually expanding capital equipment investment, the horizontal specialization management model will be more suitable for the demand trends of the industry.

The main business activity of upstream IC design companies comprises of designing and selling their own products, or accepting design assignments from customers. They belong to the upstream sector in the industrial value chain. Before completing the end product, they have to go through the major processes like photomask, wafer fabrication, chip encapsulation, and testing of the product.

The main business activity of midstream IC wafer foundry is in the production of chips from the designed circuits, using precise equipment, complex processes, and strict quality control.

The main business activity of downstream IC packing and testing factories

involves cutting, packaging, testing, and packing of the manufactured IC wafers, to obtain the final IC product.

In the semiconductor industry chain, the IC design companies belong to the knowledge-intensive industry. The high returns on investment, as well as the relatively well-established support structure of the semiconductor industry in Taiwan and the abundance of IC design talents, have encouraged many companies and investors to venture into this industry.

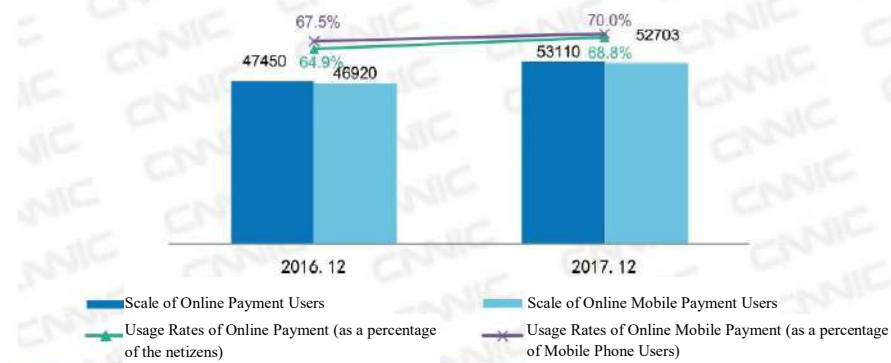
3. Various Development Trends of the Product

With the development of technology and changes in the industry, the world's major technology companies have successively ventured into the field of developing digital wallets and mobile payments. Google Wallet, PayPal, Amazon, Apple, Samsung, etc. utilize mobile payment services that require fingerprint recognition. The process of fingerprint storage, encryption, and verification takes place within the Trusted Execution Environment to ensure that the data is inaccessible by a third-party. This largely increases the level of security and repositions the role of smartphones in the area of electronic commerce. Handheld smart devices have thus become an important platform for electronic commerce. Using Apple Pay as an example, the user has to only link one credit card to be able to complete a touch transaction using the NFC (Near Field Communication Technology) chip. In practice, the user can complete the payment with their fingerprints while holding their iPhone near the POS terminal that supports Apple Pay. Since Apple Pay was launched in the United States in October 2014, it has supported services in 25 countries around the world; since launching in 2015, Samsung Pay has entered 21 countries.

According to the statistics report issued by China Internet Network Information Center (CNNIC), up to December 2017, the number of mobile payment users has grown rapidly to 527 million, with an annual growth rate of 12.3%, accounting for 70.9% of mobile users. The penetration rate of mobile payments has also been increasing. The proportion of Chinese online users who use online mobile payment has increased from 50.3% at the end of 2016 to 65.5%, and the proportion of offline payment by netizens in rural areas has increased from 31.7% at the end of 2016 to 47.1%.

12/2016 to 12/2017 Scale and Usage Rates of Online

Unit: 10,000 people



Source: CNIC Statistical survey on China's Internet development situation

2017. 12

As the usage environment of wireless internet gradually matures, mobile payment will become an important development trend for electronic commerce in the future. Mobile payments will provide people with a safer and more convenient usage environment. Mobile phones, together with the use of fingerprint recognition and other biometrics, will be able to take into account the ease of use, convenience, and security - that are essential for mobile payments. This will be an important component that will affect the user habits of consumers in the future.

4. Competitive Situation

The rapid growth in the field of fingerprint recognition has attracted input from U.S., Chinese Mainland and Taiwanese manufacturers. With a sudden drop in average selling price (ASP) and increasing number of manufacturers, it is estimated that in 2017, FPC's revenue, which previously occupied a leading position, was only 53% of 2016's revenue, and the operating profit rate also dropped sharply from 31% and 39% in 2015 and 2016 to about 6-7% in 2017.

Correspondingly, after MediaTek Inc.'s Goodix Technology in Shenzhen turned its main products to fingerprint sensors, the revenue in 2016 grew more than 4 times of 2013, and it is estimated that in 2017, the revenue will grow by 25%. It will potentially replace FPC and become the largest supplier in global fingerprint recognition sensor.

Other major fingerprint sensor suppliers include - Synaptics in the U.S., Silead (Silead) in the China Mainland, Taiwan Elan Microelectronics (Elan Microelectronics), Focal Tech (Focal Tech), etc. In addition to basic functions of IC circuit design for fingerprint recognition chips, it is widely believed in the industry that the difficulty lies in the relationship between patents, funds and suppliers.

In terms of patents, large manufacturers in Europe and the United States have advantages as pioneers. They not only grabbed the most market shares, but more importantly, they also hold many patents. In the future, there will be more patent wars in the field of fingerprint recognition. The Company has deeply researched the fingerprint recognition industry for many years, adopting a passive capacitive-sensing principle in the design of fingerprint recognition chips and it has autonomous algorithms and more than hundreds of patents in the fingerprint recognition industry. In addition, the Company continuously invests in the research and development of advanced technologies and patents, strengthening the advantages in technical attack and defense.

1. In terms of the suppliers and funds, due to the fingerprint identification chip needing to be big enough to detect fingerprints, it can be imagined that the area of the chip needs to be very large, thus consuming a large number of wafers. Due to this, the relationship with the foundry is essential when the production capacity is tight. In addition, because fingerprint recognition chips consume a large amount of wafer, if you want to reserve production capacity, you also need a large amount of deposits which also tests the capacity of capital turnover of the wafer design factories. The Company continues to maintain a good cooperative relationship with suppliers, and at the same time improve its own profitability and maintain flexible use of funds.

2. Technology Level and Research and Development Status of the Business

The fingerprint recognition industry involves the combination of hardware and software, and the need to capture clear images in an extremely short period of time, while overcoming all kinds of situations that may occur in users' fingers, such as wet fingers and sensor noise, etc. After capturing the image, it has to be reconstructed, go through a series of analyses and calculations and then analyze and compare the feature points by using an algorithm. Therefore, the security and convenience of application must be taken into consideration. Thus, cross-domain knowledge and skills are needed; it is a high technical barrier and requires years of cumulative experience in the IC design industry. Since the establishment of the Company, we have been committed to developing our own technology. At the same time, we have accumulated over 100 patents to protect our intellectual property rights. As we have developed the technology over a long time and refined our algorithms, we are able to adjust the end product making it best suitable to the needs of our customers in terms of security and convenience.

Like the development process of many consumer electronic products, the standards of some international organizations have currently evolved with the demands and improvements in technology. For example, FIDO (Fast IDentity Online) aims to revolutionize online authentication by addressing the lack of interoperability and remedy the problems users face with creating and remembering multiple usernames and passwords. At present, the Company is a board member of the FIDO Alliance, and actively joins various meetings held by the various authentication standards setting associations. The Company hopes that by joining the FIDO Alliance, the chips manufactured by the Company will be allowed into various new fields of application.

3. General Situation of Technology and Research

3. Research and Development Personnel and their Qualifications

Unit: People

Fiscal Year		Year 2015		Year 2017		April 30, 2017	
		Number of persons	%	Number of persons	%	Number of persons	%
Education Level Distribution	PhD	5	3.91%	8	4.94%	9	4.84%
	master degree	41	32.03%	56	34.57%	69	37.10%
	Postgraduat	64	50.00%	76	46.91%	84	45.16%
	Bachelor's Degree	18	14.06%	22	13.58%	24	12.90%
	Below Bachelor's Degree	0	0.00%	0	0.00%	1	0.54%
	Total	128	100.00%	162	100.00%	186	100.00%
Average Age and Seniority (Year)		1.89		2.23		2.22	

2. Annual Cost of Research and Development in the Recent Five Years

Unit: NTD Thousands

Item \ Fiscal Year	2013	2014	2015	2016	2017	March 31, 2018
Cost of Research and Development	57,454	149,800	268,469	388,960	518,013	151,297
Net Acquisition Revenue	83,703	45,473	534,447	1,673,268	4,731,908	1,633,685
As a Percentage of Net Acquisition Revenue (%)	69%	329%	50%	23%	11%	9%

Technologies or Products Successfully Developed in the Past Five Years

Fiscal Year	Name of Product and Technology
2013	<ol style="list-style-type: none"> 1. Software Products <ol style="list-style-type: none"> (1) Biometric Application develops and improves on current integrated application software for fingerprint recognition (2) VKAPI Design and Improvements on Core Fingerprint Capturing/Verification API (3) ProShield 1.5, 1.6 System Security Strengthening Software for Small and Medium-Sized Enterprises (4) Android ES603 OTG SDK 1.0 Providing the Developmental Software of the Design of the External Devices of Android (5) WBF ES608 Development of Drivers with Biometric Recognition Data Suitable for Windows Biometric Framework (6) Portable Password Bank Software Applications Developed for Fingerprint Authentication for Personal Account Data Protection Across Platforms and Relevant Technical software 2. Hardware Products <ol style="list-style-type: none"> (1) PortableUSB Password Bank Device USB Bank Password Device using Fingerprint Authentication (2) PortableBT Password Bank Device apply cross-platform password bank device of bluetooth by fingerprint authentication (3) BLE BT Device Developments and Improvements on BLE Bluetooth Devices using Fingerprints (4) BT Device with Smartcard Functions Developments and Improvements on Bluetooth Devices of Smartcard Readers using Fingerprints 3. Social Insurance Projects <ol style="list-style-type: none"> (1) CN Social Welfare Program Verification of the Chinese Government's Social Insurance Payout Project
2014	<ol style="list-style-type: none"> 1. Software Products

Fiscal Year	Name of Product and Technology
	<ul style="list-style-type: none"> (1) Small Size Algorithm Development of Algorithms Suitable for Small-Sized Fingerprint IC Matching (2) VKAPI mobile is designed with the new algorithm as the core and supports API for mobile devices (3) ProShield 1.6.25 Security Strengthening Software for Small and Medium-Sized Enterprises System (4) Android Lib 1.0 for ET300, EH310 (Normal World Version) Operating on the Lib Package of the New Fingerprint IC in the Normal Mode on Android (5) Android Lib 1.0 for ET300, EH310 (Trust Zone Version) Operating on the Lib Package of the New Fingerprint IC in the Safe Mode on Android (6) WBF ES300 Development of Drivers with Biometric Recognition Data that are Suitable for Windows Biometric Framework <p>2. Hardware Products</p> <ul style="list-style-type: none"> (1) ET300 Square, design win (2) ET310 Smallest rectangular, design in (3) ET317 Rectangular, prototyping
2015	<p>1. Software Products</p> <ul style="list-style-type: none"> (1) Small Size Algorithm (V2) Quicker and Small-Sized Fingerprint IC Matching Algorithms (2) Algorithm API Mobile for ET32x/ET5xx is designed with the new algorithm as the core and supports API for the ET32 and ET5 series ICs (3) Android M Lib for ET32x, ET5xx (Normal World Version) Operating on the Lib Package of the New Fingerprint IC (ET32 Series and ET5 Series) in the Normal Mode on Android M (4) Android M Lib for ET32x, ET5xx (Trust Zone Version) Operating on the Lib Package of the New Fingerprint IC (ET32 Series and ET5 Series) in the Safe Mode on Android M (5) WBF for ET32x/ET5xx Operating on ET32 Series and ET5 Series, Drivers with Biometric Recognition Data that are Suitable for Windows Biometric Framework (6) Fingerprint Embedded Solution Operating on the MCU fingerprint systems of STM-M4 and NXP <p>2. Hardware Products</p> <ul style="list-style-type: none"> (1) ET320 8 mm x 4 mm rectangular sensor, design win (2) EG160 Grip sensor, prototyping (3) ET502 9.6 mm x 2.4 mm rectangular sensor, prototyping (4) ET505 8 mm x 4 mm rectangular sensor, prototyping
2016	<p>1. Software Products</p> <ul style="list-style-type: none"> (1) Small Size Algorithm (V3) Quicker and Small-Sized Fingerprint IC Matching Algorithms

Fiscal Year	Name of Product and Technology
	<p>(2) Algorithm API Mobile for ET32x/ET5xx/ET6xx is designed with the new algorithms as the core and supports API for the IC of the ET32 series, ET5 series, and ET6 series.</p> <p>(3) Android M Lib for ET32x, ET5xx, ET6xx (Normal World Version) Operating on the Lib Package of the New Fingerprint IC (ET32 Series, ET5 Series, and ET6 Series) in the Normal Mode on Android M</p> <p>(4) Android M Lib for ET32x, ET5xx, ET6xx (Trust Zone Version) Operating on the Lib Package of the New Fingerprint IC (ET32 Series, ET5 Series, and ET6 Series) in the Safe Mode on Android M</p> <p>(5) Mobile Payments TEE Version on FIDO, AliPay, WechatPay</p> <p>(6) WBF for ET32x/ET5xx, ET6xx Operating on Et32 Series, ET5 Series, ET6 Series, Compatible with the Biometric Recognition Data of the Driver in the Windows Biometric Framework</p> <ul style="list-style-type: none"> ● Inclusive of Intel SGX Matcher Lib ● ETU803 Module ● ETU902 Module <p>(7) Fingerprint Embedded Solution Operating on the MCU fingerprint systems of STM-M4, NXP and Atmel</p> <p>2. Hardware Products</p> <p>ET320 8 mm x 4 mm rectangular sensor, design win</p> <p>EG160 Grip sensor, prototyping</p> <p>ET502 9.6 mm x 2.4 mm rectangular sensor, prototyping</p> <p>ET505 8 mm x 4 mm rectangular sensor, prototyping</p>
2017	<p>1. Algorithm</p> <p>(1) G3 matching algorithm</p> <p>The G3 fingerprint matching algorithm can extract a large number of fingerprint feature points on a very small area of the image to optimize recognition efficiency and reliability performance. It has been applied to the newly-marketed flagship mobile phones of major customers.</p> <p>(2) Swipe enroll/touch verify</p> <p>The innovative swipe-type fingerprint registration algorithm can capture multiple fingerprint images in a single swiping motion- compared to the previous touch-type registration, where the user must press the finger several times to capture the complete fingerprint feature. The swipe-type registration not only significantly enhances the user experience, but also maintains a very good fingerprint recognition performance. Major customers have adopted flagship mobile phones equipped with new listings.</p> <p>2. Hardware Products</p> <p>(1) ET5XX series</p> <p>Capacitive fingerprint identification chip series can be applied under the cover of 100 um~150 um thickness with optimized cost structure.</p>

Fiscal Year	Name of Product and Technology
	<p>(2) ET6XX series Capacitive fingerprint identification chip series can be applied under the cover of 200 um~300 um thickness with optimized sensing accuracy perceptiveness.</p> <p>(3) ET7XX series The optical fingerprint identification chip series can be applied to glass covers and AMOLED screens with thicknesses of 700 μm to 1,400 μm. Fingerprint identification solutions under the screen are available in response to the trend of the latest full-screens to account for mobile phones., fingerprint identification solutions under the screen are available.</p> <p>(4) 3D Face ID The facial recognition program based on 3D sensing technology has an optimized cost structure and is beneficial for expanding customer applications.</p> <p>(5) Iris Recognition In response to the diversified needs of biometric identification, the company expanded its product portfolio and added an iris recognition solution.</p>

4. Long-Term and Short-Term Business Development Plan

1. Short-Term

- (1) In the area of hardware development: Strengthen cooperation with customers. At the same time, the integration of software resources and engineering test field support should also comply with customer requirements. Therefore, continuous improvement is required in the recruitment and development of new engineering personnel.
- (2) In the area of process improvement: Work closely with wafer fabrication plants to achieve the objective of lowering cost by adopting more efficient methods.
- (3) In the area of new product development: Confirm specifications and pre-development implementation plans with customers as soon as possible.

2. Long-Term

- (1) Strengthen the core competitiveness of product design and better understand and more rapidly grasp market trends.
- (2) Investment in new products and new technologies will accelerate the timeline for product introduction through market acquisitions or the introduction of new teams.
- (3) Solutions for various innovative biometrics will be developed together with strategic partners to grasp business opportunities while reducing R&D risks.

5. Overview of Market and Production and Sales

(1) Market Analysis

1. Sales (provided) Regions of the Company's Major Commodities (services)

Unit: NTD Thousands; %

Fiscal Year		2016		2017	
		Amount	Percentage (%)	Amount	Percentage (%)
Sales Region					
Domestic Sales		32,968	1.97	31,967	0.68
International Sales	Asia	1,640,300	98.03	4,699,941	99.32
	Europe	-	-	-	-
	America	-	-	-	-
	Subtotal	1,640,300	98.03	4,699,941	99.32
Total		1,673,268	100.00	4,731,908	100.00

1. Market Share

In 2017, shipments of smartphones equipped with fingerprint sensors worldwide reached 920 million, and the penetration rate was approximately 64%. It is estimated that shipment of smartphones equipped with fingerprint sensors will reach 1.25 billion by 2020, and the penetration rate will exceed 75%. (Source: DIGITIMES Research 2017)

In 2017, the Company shipped more than 100 million fingerprint identification chips, with a market share of approximately 11%, and total revenue of 4.731 billion NTD, presenting a multiple growth, and a record high. In addition to the continuous growth of existing customers and the expansion of fingerprint chip application models to flagship models, new customers from major mobile phone brands in China and Japan have also made progress, and it is expected to continue to expand the market share of fingerprint identification chip products in the global market.

2. Future Supply and Demand and Growth of the Market

With the goal of expanding the market, the company will continue to deepen its efforts in both South Korea and Mainland China. It will also further strengthen the layout of the mainland and Japan markets. Due to the purchasing strategies of manufacturers in the Mainland China, we aim to maintain more than two suppliers in principle. We will use the foundation we have laid down to meet the cost, patent and algorithmic advantages of our products, deepen our supply chain into the mainland mobile phone factory, and actively strive for

customers of brand mobile phone manufacturers. At the same time, we will cooperate with module manufacturers with technical and customer service as to expand the company's business penetration level.

The mainland market's largest three online payment systems - CUP Mobile Payment, Alipay and WeChat Pay, have completed the infrastructure construction for mobile payment operations, and are respectively integrated with Apple Pay and Samsung Pay, thus connecting them to the world. The major online payment systems must be combined with the mobile phone's identity recognition system to enhance the security of payment.

Following the launch of Apple's iPhone 5S equipped with a fingerprint chip in September 2013, the iPhone 6 was released in October 2014 and the Apple Pay service was introduced. With fingerprint recognition and mobile payment functions, Samsung also began offering Samsung Pay service in August 2015. Since then, fingerprint identification has become an essential feature of smartphones.

The Company has been cultivating the fingerprint recognition industry for many years; it adopted a passive capacitive-sensing principle and has an independently developed algorithms. The Company has more than one hundred fingerprint identification patents upstream and downstream; is an important niche for products and technology. With strong R&D capabilities, our company has become a market leader. In the current year, we also devoted ourselves to the development of various fingerprint identification chip solutions that can save manufacturing costs and improve sensing sensitivity. We have actively expanded our product portfolio to fully satisfy the huge demand from different customers and applications.

High aspect ratio screens account for more than 100 million units of mobile phone shipments in 2017. In response to the trend of high-aspect screen ratios, the fingerprint identification under the screen can increase the proportion of screens, and various manufacturers are making every effort to invest in R&D. Based on the long-term accumulated fingerprint identification capabilities, the Company recruited new R&D teams and technology partners to develop optical fingerprint identification chips, and have made significant progress. At the same time, the Company has cooperated with customers to import fingerprint recognition solutions under the screen to customers' products.

In addition, the launch of the Apple iPhone X in 2017 gave rise to the

wave of 3D facial recognition. It is expected that the Android ~~camp~~ mobile phones will also incorporate face recognition unlock and payment function. However, the face recognition still has security concerns, and the market generally believes that the multiple factors of face, fingerprints, irises, and passwords will be the main trend for future application scenarios where financial or other security standards is high. In response to this trend, the Company has also developed 3D sensing technology for face recognition research and development, as well as an iris recognition program. At the same time, the Company has developed a wafer program that is more cost-competitive than the existing technologies in the market, and will facilitate the introduction of product applications to accelerate time to market.

According to the ABI Research report, global industries will increase investment in various identification and authentication technologies in response to rising security requirements, and the estimated global biometric market output will exceed US\$10 billion by 2021.

In the future, the Company will continue to provide more advanced products in the field of existing capacitive fingerprint identification chips, as well as adding more biometric identification technologies, and will strive to develop a variety of software and hardware to improve integrated solutions to enhance end-user experience and product value-added features. For example, the Company will introduce the Swipe Enroll function, providing innovative swipe-type fingerprint registration. The Swipe-type fingerprint registration can capture multiple fingerprint images in a single swipe motion, compared with the previous ~~press~~ touch registration, in which the user must press the finger several times to capture the full fingerprint feature points. The swipe-type fingerprint registration not only significantly improves the user experience, but also maintains a very good fingerprint recognition performance, which has been adopted by major customers and equipped with a newly-listed flagship phone.

In regards to ~~of~~ product application, the company will continue to expand its use of fingerprints and various biometric technologies in smartphones, mobile devices, wearable electronic products, etc., and will also strive to expand financial payments, smart cities, and automotive applications in electronic, consumer electronics and other more application level.

3. Competitive Niche

The Company was established in 2007, and has successively acquired key

technologies and patents related to fingerprint recognition through independent development. Hence, as compared to other competitors whose main business activity is to design chips, the Company has not only equipped itself with advanced development technologies and expertise in the upstream chip design and production, but also has empowered itself with the ability to independently develop algorithms that can accurately identify fingerprints under various environments (such as, static, temperature, moisture, etc.). At the same time, the Company has accumulated a long-term record of large output volumes in the past and ~~it~~ possesses real-world experience with regard to the development and system integration of client hardware and software applications. The Company has the best - to performance chip module solutions in the industry, giving the company the ability to provide all-rounded products and provide services for the upstream, midstream, and downstream sectors for customers with different requirements.

(1) Unique Passive Capacitive Sensing Technology

Regarding the most important wafer design technology, the Company's design framework is unique, using passive capacitive sensing principles to design the fingerprint identification chip. Our competitors typically employ the active sensing principle, which requires manufacturing processes as an external metallic ring, precise sequence control, and an internal protective shield. As a result, our competitors cost is higher, the noise is stronger, and the power consumption is greater compared to the products of our company. As for the Company's unique passive capacitive sensing technology, the chip design with this technology does not require the aforementioned manufacturing processes and thus has a simpler structure. There is no need for any special manufacturing processes, and the module structure is simple. The chip can achieve the goal of accurate fingerprint recognition, ~~and this is matched with its~~ while having a smaller size, lower power consumption, and lower cost.

(2) Autonomous Algorithm Technology

Capturing fingerprints accurately is only one part of fingerprint recognition. After the fingerprint sensor captures the image of a fingerprint, the algorithms will then process the fingerprint image and extract fingerprint minutiae points. The system then converts the captured fingerprint into a digital template, which is then compared with all of the fingerprint templates in the database in order to verify the correct identity of

the user. In the past, the larger surface area of the sensors used on notebook computers allowed larger images of fingerprints to be captured, which made the comparison of fingerprints relatively easier. Today, the images of fingerprints captured are smaller due to the small surface area of the sensors on the smartphones. Hence, the algorithms used in the fingerprint recognition on smartphones have become critical in the determination of the size of the chips and the cost of producing the chips. The Company not only possesses the technology for manufacturing fingerprint sensors, but also has independently developed fingerprint recognition algorithms which have passed strict test conditions. We have also integrated the relevant technologies for fingerprint extraction and unique fingerprint algorithms.

The Company's algorithm is flexible, customizable according to different environments, and has the features of low memory consumption and savings on operating resources. Besides fulfilling the requirement of secure operations on mobile devices and in embedded equipment, it has the potential of porting over to smartcards and secure chips. Due to the fact that we have a fingerprint recognition algorithm for small surface areas, the Company does not have to give a percentage cut to algorithm providers. Thus, in terms of price competitiveness, there is room for price flexibility and negotiation.

(3) Over a hundred patents in fingerprint recognition for upstream and downstream

The Company has been committed in the research and development of capacitive fingerprint recognition sensor chips and its relevant technologies since its establishment in 2007 and has accumulated over a hundred patents worldwide. These patents include the design and packaging technology of chips, image extraction, algorithm for image reconstruction and comparison, firmware, tools for development hardware and software, identification comparison functions, software applications, mobile payments, compatible software for electronic commerce, security control, data encryption etc.

As fingerprint recognition in smartphone applications has been predicted to have a rapid and flourishing development, patent rights protection becomes an important factor in the development of this particular industry. The development and protection of Intellectual Property (IP) is a useful tool to maintain the competitiveness of the company's products and technologies, especially when facing strong competition from competitors

worldwide. Major brands worldwide value the importance of patent rights protection. They have to ensure that all hardware and software used in brand products do not constitute an infringement of patent rights before proceeding with procurement. Thus, it is an important niche market for the company, which possesses over a hundred patents that cover the upstream and downstream of fingerprint recognition.

(4) Experience in Application Development and System Integration

The Company has not only provided chips and algorithms in the past, but also provided companies with application development services like: file encryption and decryption, system logins, fingerprint capturing, website logins, etc. The company's application development has been highly recognized by customers, and even the company's competitors have used our software applications in the past. In the earlier days, competitors like AuthenTec (acquired by Apple), UPEK (acquired by AuthenTec) and Validity (acquired by Synaptics) outsourced for the fingerprint application software that the company designed and developed. The Company previously also supplied software to notebook computer companies, and has accumulated experience in the integration of hardware and software platforms as well as the ability to provide instant technical support, providing customers with a complete solution in terms of product development. The flexibility in product development and technical support of the Company is superior as compared to our competitors.

(5) Innovative Biometrics

In response to the 3D facial recognition trend launched by the Apple iPhone X, Android mobile phones will be rushed to join the facial recognition unlocking and payment function. The Company has launched 3D sensing technology for face recognition research and development. At the same time, more efforts will be made to develop a more cost-effective chip solution than the market's existing technology, which will facilitate the introduction of product applications and speed up time to market.

Iris recognition, like other biometric systems, is composed of three parts: image capture, feature point extraction, and comparison. In the case of the iris recognition system, image acquisition refers to the reading of retinal images by professional infrared cameras. Feature point extraction is the process of extracting feature points after a series of complex image processing calculations. Comparison means the extracted feature points are

compared with the database to achieve the recognition or certification effect. In addition to the infrared camera system for image capturing, other feature point extraction and feature ratio technologies are all well known to the company. Therefore, the Company has an excellent base for entering iris recognition.

4. Advantages and Disadvantages in the Company's Prospect; and Contingency Measures

(1) Advantageous Factors

- A. Fingerprint identification technology has patent restrictions, thus there are high entry barriers.

As the time taken to train an IC design talent is relatively long, the research and development of a product requires a long-term accumulation of experiences. Furthermore, fingerprint recognition ICs have to capture clear images in an extremely short period of time, and overcome all kinds of situations that may be caused by users' fingers in daily use, such as wet fingers, sensor noise, etc. After capturing the image, the image has to be rearranged and go through a series of analysis and calculations, where the image will then be compared with the analyzed finger characteristic traits using an algorithm. As a result, security and convenience are particularly important in applications. Therefore, cross-domain knowledge and skills are needed, having a high technical barrier and requiring years of cumulative experience in the IC design industry. The Company was established in 2007 and acquired key technology and patents related to fingerprint identification through its own development and acquisition. It has not only equipped it with advanced development technologies and expertise in upstream chip design and production, but has also empowered it with the ability for self-development of algorithms, as well as hardware and software application development and system integration capabilities. This enables the company to provide a full range of products and services for different needs of customers, including those in the upstream, middle and downstream sectors.

As fingerprint recognition in smartphone applications has been predicted to have a rapid and flourishing development, patent rights protection becomes an important factor in the development of this particular industry. The development and protection of Intellectual Property (IP) is a useful tool to maintain the company's competitiveness and its

products and technologies, especially when facing strong competition from competitors worldwide. Major brands worldwide value the importance of patent rights protection. They have to ensure that all hardware and software used on their products do not constitute an infringement of patent rights before proceeding with procurement. It is thus the main reason for the industry's high barriers to entry. The Company possesses over a hundred patents that covers the upstream and downstream of fingerprint recognition, enabling the Company to provide more competitive prices and solutions that will not risk the infringement of patent rights.

B. Continuous growth of mobile devices and biometric identification as a future trend

In September 2013, Apple launched the iPhone 5S that incorporated the fingerprint recognition chip. Correspondingly, mobile phone companies worldwide have also been launching phone models with fingerprint recognition functions. Fingerprint recognition ICs are playing an important role and becoming more and more indispensable. In addition, other than using fingerprint recognition to unlock the phone, the iPhone 5S also has a function to identify the user when the user purchases Apps or music. Furthermore, Samsung's "Galaxy S5" works with PayPal, allowing Galaxy S5 users to experience purchasing from any store that supports PayPal payments just by using fingerprint identification for the first time. In September 2014, Apple's new iPhone 6 series, in addition to carrying fingerprint recognition capabilities, launched the Apple Pay mobile wallet. Contactless payments can be made on the iPhone 6, iPhone 6 Plus, or Apple Watch through the built-in NFC (Near Field Communication Technology), and users can even use fingerprint recognition to pay directly to online shopping websites with just one touch. Samsung's "Galaxy S6" in March 2015 also continued to carry fingerprint identification, and further launched "Samsung Pay", and continued to carry fingerprints and "Samsung Pay" on A series, C series, J series, and On series. This shows that the development trend of electronic payments will become another important motivation for the growing demand of mobile phones with fingerprint recognition functions.

In addition, the high aspect ratio screen accounts for more than 100 million mobile phone shipments in 2017, and due to this trend fingerprint identification under the screen can increase the screen-to-body ratio. Thus all manufacturers are fully committed to R&D. Based on the long-term

accumulated fingerprint identification capabilities, the company recruited new R&D teams and technology partners to develop optical fingerprint identification chips, and have made significant progress. At the same time, the Company has cooperated with customers to import fingerprint recognition solutions under the screen to customers' products.

In addition, with the launch of the Apple iPhone X in 2017 gave rise to the wave of 3D facial recognition. It is expected that Android mobile phones will also be incorporated into the face recognition unlock and payment function. However, facial recognition still has security concerns, and the market generally believes that the multiple applications of face, fingerprints, irises, and passwords will be the main trend for future application scenarios where financial or other security standards is high. In response to this trend, the Company has also developed 3D sensing technology for face recognition research and development, as well as an iris recognition program. At the same time, the Company has developed a wafer program that is more cost-competitive than the existing technologies in the market, and will facilitate the introduction of product applications to accelerate time to market.

C. Diversification of Applications, Promising Future of the Industry

The application of biometric identification is not only a security-grade anti-counterfeiting mechanism at the high security level, but the application of biometrics can also be used as a protection function for personal privacy, such as: password management of various accounts, database management, mailbox management, etc. of personal electronic devices. Furthermore, the uniqueness of biometric identification enables the introduction of various types of consumer electronic products, providing individuals with fast and convenient personal management functions for their daily lives. These include: all devices that provide for personal needs such as wearable devices, access control, vehicle anti-theft devices and smart TV, etc.

According to the ABI Research report, global industries will increase investment in various identification and authentication technologies in response to rising security requirements, and the estimated global biometric market output will exceed US\$10 billion by 2021.

(2) Disadvantageous Factors

A. 3D Face Recognition Rise, Exclusion Fingerprint Identification

Apple's newest flagship mobile phone, the iPhone X, was launched in 2017. It is equipped with a new identity authentication mechanism "Face ID" to replace fingerprint identification, support unlocking and payment functions, and set off a trend of 3D face recognition. Apple's move aroused a major change in existing mobile phone security identification technology, though there are doubts in the market about whether face recognition will replace fingerprint identification, instigating a debate regarding the status of fingerprint identification chip market.

Contingency Measures:

Because facial recognition still has security concerns, the market generally believes that the multiple applications of face, fingerprints, irises, and passwords will be the main trend instead of single use of face recognition for future application scenarios where financial or other security standards is high.

In addition, according to the IHS analysis, the cost of the hardware parts of the 3D TrueDepth Camera System developed by Apple is US\$16.70, which is three times higher than that of Apple's iPhone 8 Fingerprint Touch ID and is also significantly higher than the average cost of fingerprint identification chips on the market. Such a high cost will not be conducive to the popularity of 3D facial recognition. In fact, based on the consideration of price structure of the products, the Android mobile phone brands are still undecided about 3D face recognition.

For 3D face recognition, the Company has focused on the development of a chip solution with a unique architecture and a significant reduction in cost, which will facilitate the introduction of product applications to customers and accelerate time to market. In addition, the Company also provides fingerprint recognition, iris recognition and other programs under the screen in response to increasingly diversified biometric needs.

B. Due to full utilization of fabs, it is hard to find production capacity.

With the development of the Internet of things, automotive electronics, wireless communication, consumer electronics and other fields, the production capacity of wafer foundries is tight. TSMC, UMC, and the world's most advanced eight-inch plant have reached full capacity utilization rates, and their production cycle lengthened. Major wafer

foundries have appealed to IC design customers for early planning of orders. There have also been many cases of rising OEM prices.

Specific Contingency Measures:

The fingerprint identification chip has long been the main force of the 8 inch main fabs in the past two years due to the penetration rate of fingerprint recognition in the mobile phone gradually increasing, as well as the relatively large area of the fingerprint identification chip. The Company continues to maintain a good relationship with the fab, master production and sales planning, with a shipment of more than one hundred million wafers a year, ~~has~~ giving considerable advantages in bargaining space and capacity booking. In the market of fingerprint identification chip where the competition is increasingly fierce, the Company can still hold an advantageous position.

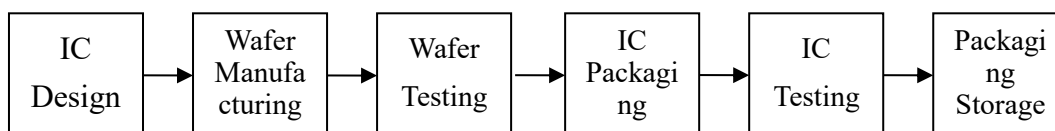
6. The important uses and production processes of the main products

1. Important Uses of Main Products

Main Products	Main Function and Uses
Biometric Recognition Sensor IC and its Applications	Capacitive fingerprint sensing chip and fingerprint identification application software
Revenue from Technical Services	Provision of technical support services, including technical services like software testing and the development of sensor chips

2. Manufacturing Process of Main Products

The Company is a design company for fingerprint recognition ICs and its solutions. The plant is commissioned to manufacture the wafers and the wafers produced by the plant will be sent to the packing and testing factories for packaging and testing, and then stored for sale. The product manufacturing process is as follows: besides the research and development of software, planning and scheduling of the design is based on the orders given, so it does not have its own product line, and hence, there is no manufacturing process.



3. Supply of Major Raw Materials

Wafers are the major raw materials of the Company's products, and the main supplier of wafers is company A, which possesses a considerable standard in terms of their quality and manufacturing capacity. The supply quantity and level of accommodation are compatible with the company's demands and expectations. The Company will discuss the price with the supplier based on the demand and supply in the market, and regularly examine the product quality and service conditions. The supplier will provide technical services. In addition, the Company will not only continue to strengthen the current cooperation with the plant, but also actively source out other local and international plants, so as to be provided with more security and choices for the source, quality and price of raw materials.

(2) Names of customers who contributed to more than 10% of total purchase (or sales) amount in the recent two years, and the corresponding purchase (or sales) amounts

and percentages, as well as reasons for their changes:

- Names of companies which contributed to more than 10% of total purchase amount in the recent two years, and the corresponding purchase amounts and percentages, as well as reasons for their changes:

Unit: NTD-Thousands; %

Items	2016				2017				March 31, 2018			
	Name	Amount	As a Percentage of Net Sales (%)	Relationship with Issuer	Name	Amount	As a Percentage of Net Sales (%)	Relationship with Issuer	Name	Amount	As a Percentage of Net Sales (%)	Relationship with Issuer
1	Company A	257,608	22.25	Nil	Company A	250,144	9.54	Nil	Company A	344	0.03	Nil
2	Company B	882,244	76.21	Nil	Company B	2,225,704	84.90	Nil	Company B	757,459	72.52	Nil
	Others	17,821	1.54	-	Others	145,728	5.56	-	Others	249,119	23.85	-
	Purchases Net Amount	1,157,673	100.00		Purchases Net Amount	2,621,576	100.00		Purchases Net Amount	37,549	3.60	

Reasons for Increase and Decrease: The Company has reduced the amount of goods purchased from company A and switched to company B in the recent two years. This is mainly attributed to the difference in manufacturing process due to the production of different models.

- Names of customers who contributed to more than 10% of total sales amount in the recent two years, and the corresponding sales amounts and percentages, as well as reasons for their changes:

Unit: NTD Thousands; %

Items	2016				2017				March 31, 2018			
	Name	Amount	As a Percentage of Net Sales (%)	Relationship with Issuer	Name	Amount	As a Percentage of Net Sales (%)	Relationship with Issuer	Name	Amount	As a Percentage of Net Sales (%)	Relationship with Issuer
1	Company A	1,174,868	70.21	Nil	Company A	2,073,638	43.82	Nil	Company A	426,949	26.13	Nil
2	Company B	51,180	3.06	Nil	Company B	880,487	18.61	Nil	Company B	196,878	12.05	Nil
3	Company C	282,837	16.90	Nil	Company C	780,510	16.49	Nil	Company C	679,698	41.61	Nil
4	Company D	199	0.01	Nil	Company D	647,791	13.69	Nil	Company D	200,217	12.26	Nil
	Others	164,184	9.82	-	Others	349,482	7.39	-	Others	129,943	7.95	-

	Sales Net Amount	1,673,268	100.00	-	Sales Net Amount	4,731,908	100.00	-	Sales Net Amount	4,633,685	100	-
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Reasons for Increase and Decrease: The Company has achieved success in the development of new products and acquiring new customers, resulting in a substantial growth in the customer revenue of the brand.

(3) Production Volume and Value in the Recent Two Years

Unit: PCS; NTD '000-Thousands

Output Quantity and Value Primary Product		Fiscal Year		2016			2017		
		Capacity	Output	Value	Capacity	Output	Value		
Biometric Recognition Sensor IC and Its Applications	IC and Application Devices	Note 1	31,212,865	1,859,340	Note 1	113,082,772	5,370,945		
	Software Application	Note 2	Note 2	Note 2	Note 2	Note 2	Note 2		
Data Security and Protection and Its Applications		Note 2	Note 2	Note 2	Note 2	Note 2	Note 2		
Technical Services		Note 2	Note 2	Note 2	Note 2	Note 2	Note 2		
Total			31,212,865	1,859,340		113,082,772	5,370,945		

Note 1: The Company's main business activity is IC design, and it has commissioned the plant to manufacture the wafer, as well as outsourced the packaging and testing jobs. Thus, this is not applicable.

Note 2: This is a software application project and thus, it is not applicable.

Analysis and explanation of the changes in the output quantity and value: The main reason for the large increase in output is due to the Company's success in expanding the business.

(4) Sales Quantity and Values in the Recent Two Years

Unit: PCS; NTD ~~4000~~ Thousands

Sales Quantity Fiscal Year		2016				2017			
		Domestic Sales		International Sales		Domestic Sales		International Sales	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Primary Product									
Biometric Recognition Sensor	IC and Application Devices	517,832	26,740	29,669,252	1,434,743	593,532	27,998	110,908,222	4,675,049
IC and Its Applications	Software Application	Note 1	1,500	Note 1	199,978	Note 1	-	Note 1	21,524
Data Security and Protection and Its Applications		Note 1	4,728	Note 1	-	Note 1	3,969	Note 1	-
Technical Services		Note 1	-	Note 1	5,579	Note 1	-	Note 1	3,368
Others		Note 1	-	Note 1	-	Note 1	-	Note 1	-
Total		517,832	32,968	29,669,252	1,640,300	593,532	31,967	110,908,222	4,699,941

Note 1: This is a software application project and thus, it is not applicable.

Analysis and Explanation of the Changes in Sales Quantity and Value the Company's fingerprint identification chips have been successfully developed overseas. The volume and amount of foreign sales this year have grown significantly from the previous year.

3. Number of employees hired for the last two fiscal years, and during the current fiscal year up to the date of publication of the annual report, their average years of service, average age, and percentage distribution of education levels

年度		2015	2016	2017	2018 to
					April 30 of the Fiscal Year
Number of Employees	Direct	-	0	0	-
	Indirect	134	173	217	248
	Total	134	173	217	248
Average Age		36	33.98	35.73	39.26
Average Length of Service (Years)		1.75	2.09	2.38	2.79
Distribution of Education Level Percentage (%)	PhD	3.73%	3.47%	4.15%	4.03%
	Postgraduate	34.33%	31.79%	34.10%	35.48%
	University and Diploma	61.19%	64.16%	61.29%	59.68%
	Diploma and below	0.75%	0.58%	0.46%	0.81%
	Total	100.00%	100.00%	100.00%	100.00%

4. Information on Disbursements for Environmental Protection

Total losses (including damages) and fines for environmental pollution in the current fiscal year up to the date of publication of the annual report, explanation of future contingency policies (including the improvement of measures) and possible payments (including the possible losses, fines, and damages incurred for failure to adopt the contingency policies; an explanation should be provided should a reasonable estimation cannot be given): The Company is an IC design company, and thus is not involved in environmental pollution.

5. Labor Relations

- (1) List of various employee benefits, further education, training, retirement scheme, and other implementation situations, as well as labor-management agreements and

various protective measures for employee rights:

1. Employee Benefits and Their Implementation

The Company's benefits can be categorized into benefit provided by the company and benefit provided by the Employee Welfare Committee:

Benefits Provided by the Company:

- (1) Labor Insurance, National Health Insurance, and the allocation of labor pension are provided in compliance with the law.
- (2) The Company pays for the employee's insurance, including life insurance, casualty insurance, medical insurance, cancer insurance, and business travel insurance.
- (3) Annual health checkups, overtime dinners, department banquets, year-end company parties and events etc.
- (4) Competitive salary including year-end bonuses, performance bonuses, special project bonuses, patent bonuses, and subsidies for business trip expenses etc.

Benefits Provided by the Employee Welfare Committee:

- (1) Lucky draws in year-end company parties.
- (2) Employee holiday trips and festive celebratory events.
- (3) Cash gifts and gifts for the three traditional holidays and cash gifts for birthdays.
- (4) Subsidies for weddings and funerals.

2. Employee Training and Development

The Company provides diverse training courses and arrangements for education training, in order to improve the professional skills and core competitiveness of the employees so that they are able to perform their functions, increase work productivity, and ensure work quality in the achievement of the company's goals of sustainable operations and development.

The contents of the training courses include the training of new employees, professional skills training, management development training, and the general training etc. By providing employees with opportunities for education and development through various ways of internal and external training and self-learning, colleagues will be able to constantly fulfill and gain new knowledge, and unleash their inner potential.

3. Retirement Scheme and its Implementation

The Company adopts the new scheme in compliance with the Labor Pension Act, where 6% of the monthly salary will be allocated to the pension account;

relevant retirement matters will be handled in compliance with the Labor Pension Act.

4. Situation on Labor and Management Relations

The Regulations set by the Company is in compliance with the Labor Standards Act. The Company values its employees' opinions and thus adopts an open and two-way communication approach. This provides a channel for smooth internal communication within the company, in the hope that the employees and the management can maintain good and harmonious relations.

5. Various Protective Measures of Employee Rights and Interests

The Company has formulated relevant management regulations and systems which clearly state employees' rights and obligations, as well as benefits. The Company will examine and modify the contents of the benefits regularly, so as to protect the rights and interests of all the employees.

- (2) List the losses incurred by the Company as a result of labor disputes in the current fiscal year up to the date of publication of the annual report, and disclose an estimate of losses incurred to date or likely to be incurred in the future, and the contingency measures. An explanation should be provided should a reasonable estimation not be given: No such situation.

6. Important Contracts

List of all marketing contracts, technical assistance agreements, engineering agreements, long-term loan agreements and any other important contracts that will affect the shareholders' equity, which are still valid up to the date of publication of the annual report and that has expired in the current fiscal year; list the parties involved, main content, terms and conditions, and the date of the subscription agreement:

Nature of Contract	Parties Involved	Date of the Subscription Agreement	Main Content	Terms and Conditions
Tenancy Agreement	Chen○Ying	03/2017 - 02/2022	Rental of Office	Nil
Software	Company Shen	01/2015 -	Software Authorization	Nil

Nature of Contract	Parties Involved	Date of the Subscription Agreement	Main Content	Terms and Conditions
Authorization Contract		01/2017		
Software Authorization Contract	Company Yin	01/2015 - 12/2019	Software Authorization	Nil
Procurement Contract	Company A	12/2013 - 11/2023	Procurement of Raw Materials	Nil
Manufacturing Process Outsourcing Contract	Company H	From April 4, 2015	Manufacturing Process Outsourcing	Nil

VI. Financial Overview

1. Condensed Balance Sheets and Consolidated Income Statements for the Last Five Fiscal Years

(1) Condensed Balance Sheets and Consolidated Income Statements

1. Condensed Balance Sheets

(1) International Financial Reporting Standards (Consolidated)

Unit: NTD '000

Item	Fiscal Year	Financial Information for the Last Five Fiscal Years					2018 As of March 31
		2013	2014	2015	2016	2017	
Current assets		188,131	580,354	1,380,007	2,170,794	3,238,969	3,548,792
Investments accounted for using equity method		-	-	-	-	-	-
Property, plant and equipment		5,230	13,423	17,340	23,874	33,758	31,908
Intangible assets		116,885	120,448	114,141	217,136	200,641	196,966
Other assets		15,599	42,091	57,216	81,254	154,300	188,921
Total assets		325,845	756,316	1,568,704	2,493,058	3,627,668	3,966,587
Current liabilities	93,374	92,024	218,774	933,703	1,363,586	1,462,130	964,153
	93,374	92,024	218,774	933,703	註 2	註 2	Note 3
Non-current liabilities		74	-	-	1,285	-	-
Total liabilities	93,448	92,024	218,774	934,988	1,363,586	1,462,130	965,438
	93,448	92,024	218,774	934,988	註 2	註 2	Note 3
Equity attributable to owners of the parent company		232,397	664,292	1,349,930	1,558,070	2,264,082	2,504,457
Share capital		522,493	621,493	684,693	695,573	709,323	709,803
Capital reserves		2,708	268,502	749,662	742,625	942,038	947,798
Retained earnings	(300,389)	(230,159)	(89,590)	114,026	707,217	923,703	298,921
	(300,389)	(230,159)	(89,590)	114,026	註 2	註 2	Note 3
Other equities		7,585	4,456	5,165	5,846	(94,496)	(76,847)
Treasury stock		-	-	-	-	-	-
Non-controlling interests		-	-	-	-	-	-
Total equity	232,397	664,292	1,349,930	1,558,070	2,264,082	2,504,457	1,756,676
	232,397	664,292	1,349,930	1,558,070	Note2	Note3	Note 3

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants, and the consolidated financial statements for the first quarter of 2018 have been reviewed by the certified public accountants.

Note 3: The 2016 Earnings Distribution Plan is still pending resolution by the shareholders' meeting.

(2) R.O.C. Financial Accounting Standards (Consolidated)

The Company has adopted the International Financial Reporting Standards recognized by the Financial Supervisory Commission since 2013.

(3) International Financial Reporting Standards (Individual)

Unit: NTD '000

Item	Fiscal Year	Financial Information for the Last Five Fiscal Years				
		2013	2014	2015	2016	2017
Current assets		174,974	568,254	1,366,254	2,139,538	3,199,315
Investments accounted for using equity method		20,193	15,790	13,516	29,879	34,442
Property, plant and equipment		4,452	12,916	16,879	22,705	33,111
Intangible assets		112,106	115,373	114,141	217,136	200,641
Other assets		13,565	40,195	56,229	79,994	154,056
Total assets		325,290	752,528	1,567,019	2,489,252	3,621,565
Current liabilities	Before distribution	92,819	88,236	217,089	929,897	1,357,483
	After distribution	92,819	88,236	217,089	929,897	Note 2:
Non-current liabilities		-	74	-	-	1,285
Total liabilities	Before distribution	92,893	88,236	217,089	931,182	1,357,483
	After distribution	92,893	88,236	217,089	931,182	Note 2:
Equity attributable to owners of the parent company		232,397	664,292	1,349,930	1,558,070	2,264,082
Share capital		522,493	621,493	684,693	695,573	709,323
Capital reserves		2,708	268,502	749,662	742,625	942,038
Retained earnings	Before distribution	(300,389)	(230,159)	(89,590)	114,026	707,217
	After distribution	(300,389)	(230,159)	(89,590)	114,026	Note 2:
Other equities		7,585	4,456	5,165	5,846	(94,496)
Treasury stock		-	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	232,397	664,292	1,349,930	1,558,070	2,264,082
	After distribution	232,397	664,292	1,349,930	1,558,070	Note 2:

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants.

Note 2: The 2017 Earnings Distribution Plan is still pending resolution by the shareholders' meeting.

(4) R.O.C. Financial Accounting Standards (Individual)

The Company has adopted the International Financial Reporting Standards recognized by the Financial Supervisory Commission since 2013.

2. Condensed Consolidated Income Statements

(1) International Financial Reporting Standards (Consolidated)

Unit: NTD '000

Item	Fiscal Year	Financial Information for the Last Five Fiscal Years					2018 As of March 31
		2013	2014	2015	2016	2017	
Operating revenue		83,703	45,473	534,447	1,673,268	4,731,908	1,633,685
Gross operating profit		56,645	13,794	396,856	755,801	1,822,175	576,160
Operating loss		(82,631)	(267,166)	(63,323)	136,019	776,643	309,623
Non-operating revenue and expenditure		3,212	7,776	7,673	22,733	(40,757)	(30,621)
Net profit (loss) before tax		(79,419)	(259,390)	(55,650)	158,752	735,886	279,002
Net profit from continuing operations		(72,297)	(230,159)	(89,590)	114,026	593,191	216,486
Loss from discontinued operations		-	-	-	-	-	-
Net profit (loss) for the current period		(72,297)	(230,159)	(89,590)	114,026	593,191	216,486
Other comprehensive income(net amount after tax) for the current period		168	(3,129)	709	681	(2,608)	(1,202)
Total comprehensive income for the current period		(72,129)	(233,288)	(88,881)	114,707	590,583	215,284
Net profit attributable to owners of the parent company		(72,297)	(230,159)	(89,590)	114,026	593,191	216,486
Net profit attributable to non-controlling interests		-	-	-	-	-	-
Total comprehensive income attributable to owners of the parent company		(72,129)	(233,288)	(88,881)	114,707	590,583	215,284
Total comprehensive income attributable to non-controlling interests		-	-	-	-	-	-
Earnings per share		(1.45)	(3.75)	(1.44)	1.66	8.50	3.07

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants, and the consolidated financial statements for the first quarter of 2018 have been reviewed by the certified public accountants.

(2) R.O.C. Financial Accounting Standards (Consolidated)

The Company has adopted the International Financial Reporting Standards recognized by the Financial Supervisory Commission since 2013.

(3) International Financial Reporting Standards (Individual)

Unit: NTD '000

Item \ Fiscal Year	Financial Information for the Last Five Fiscal Years				
	2013	2014	2015	2016	2017
Operating revenue	83,703	45,473	534,447	1,673,268	4,731,908
Gross operating profit	56,645	13,794	396,856	755,801	1,822,175
Operating loss	(65,810)	(241,589)	(47,057)	167,854	783,856
Non-operating revenue and expenditure	(13,695)	(17,801)	(8,593)	(9,312)	(51,898)
Net profit (loss) before tax	(79,505)	(259,390)	(55,650)	158,542	731,958
Net profit from continuing operations	(72,297)	(230,159)	(89,590)	114,026	593,191
Loss from discontinued operations	-	-	-	-	-
Net profit (loss) for the current period	(72,297)	(230,159)	(89,590)	114,026	593,191
Other comprehensive income (net amount after tax) for the current period	168	(3,129)	709	681	(2,608)
Total comprehensive income for the current period	(72,129)	(233,288)	(88,881)	114,707	590,583
Earnings per share	(1.45)	(3.75)	(1.44)	1.66	8.50

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants.

(4) R.O.C. Financial Accounting Standards (Individual)

The Company has adopted the International Financial Reporting Standards recognized by the Financial Supervisory Commission since 2013.

(2) Names and Audit Opinion of Certified Public Accountants for the Last Five Fiscal Years

Fiscal Year	Name of Accounting Firm	Name of Certified Public Accountant Responsible for Certification Work	Opinion
2013	KPMG Taiwan	Sonia Chang and Philip Tang	Unqualified opinion
2014	KPMG Taiwan	Sonia Chang and Philip Tang	Unqualified opinion
2015	KPMG Taiwan	Sonia Chang and Philip Tang	Unqualified opinion
2016	KPMG Taiwan	Steven Shih and Philip Tang	Unqualified opinion
2017	KPMG Taiwan	Steven Shih and Philip Tang	Unqualified opinion

Note: The change to the certified public accountant is due to adjustments in the internal job duties of the accounting firm.

2. Financial Analysis for the Last Five Fiscal Years

(1) Financial Analysis for the Last Five Fiscal Years - International Financial Accounting Standards (Consolidated)

Analysis Item		Fiscal Year	Financial Analysis for the Last Five Fiscal Years					2018 As of March 31
		2013	2014	2015	2016	2017		
Financial structure (%)	Liabilities to assets ratio	28.68	12.17	13.95	37.50	37.59	36.86	
	Permanent capital to property, plant and equipment ratio	4,444.95	4,948.91	7,785.06	6,531.60	6,706.80	7,848.99	
Solvency	Current ratio (%)	201.48	630.66	630.79	232.49	237.53	242.71	
	Quick ratio (%)	176.71	597.93	554.01	168.75	181.46	173.05	
	Interest coverage ratio	(388.31)	(952.64)	(151.88)	100.72	80.94	115.39	
Operational capability	Receivables turnover ratio (number of times)	3.32	2.47	11.66	6.85	8.32	8.72	
	Average collection period	110	148	31	53	44	42	
	Inventory turnover ratio (number of times)	2.39	1.49	1.58	2.62	4.66	5.2	
	Payables turnover ratio (number of times)	2.91	2.40	3.29	3.38	5.24	7.32	
	Days' sales in inventory	152	245	231	139	78	70	
	Property, plant and equipment turnover ratio (number of times)	14.61	4.88	34.75	81.2	164.21	199.03	
	Total assets turnover ratio (number of times)	0.26	0.08	0.46	0.82	1.55	1.72	
Profitability	Return on assets (%)	(22.16)	(42.50)	(7.68)	5.68	19.63	23.01	
	Return on equity (%)	(28.34)	(51.34)	(8.90)	7.84	31.04	36.32	
	Pre-tax profit to paid-in capital ratio (%)	(15.20)	(41.74)	(8.13)	22.82	103.74	39.31	
	Net profit margin (%)	(86.37)	(506.14)	(16.76)	6.81	12.54	13.25	
	Earnings per share (NTD)	(1.45)	(3.75)	(1.44)	1.66	8.50	3.07	
Cash Flow	Cash flow ratio (%)	(54.64)	(228.76)	(66.75)	(14.14)	43.47	(12.72)	
	Cash flow adequacy ratio (%)	(255.71)	(494.04)	(223.43)	(77.43)	6.12	(7.58)	
	Cash reinvestment ratio (%)	(18.48)	(29.88)	(10.42)	(8.22)	25.66	(7.28)	
Degree of leverage	Degree of operating leverage	(0.69)	(0.05)	(5.49)	4.70	1.91	1.67	
	Degree of financial leverage	1.00	1.00	0.99	1.01	1.01	1.01	

Analysis Item	Fiscal Year	Financial Analysis for the Last Five Fiscal Years					2018 As of March 31
		2013	2014	2015	2016	2017	
		The explanations for financial ratios with changes in excess of 20% for 2017 as compared to 2016 are as follows:					
		<ol style="list-style-type: none"> 1. Receivables turnover ratio and average collection period: This is mainly caused by a growth in operating revenue wherein hardware sales account for a relatively high proportion of such growth. 2. Inventory turnover ratio and days' sales in inventory: This is mainly caused by an increase in cost of goods sold arising from a substantial growth in operating revenue. 3. Property, plant and equipment turnover ratio: This is mainly caused by a substantial growth in operating revenue. 4. Total assets turnover ratio: This is mainly caused by a substantial growth in operating revenue. 5. Return on assets: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 6. Return on equity: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 7. Pre-tax profit to paid-in capital ratio: This is mainly caused by a substantial increase in pre-tax profit arising from a turn from loss to profit for the current period. 8. Net profit margin: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 9. Earnings per share: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 10. Cash flow ratio: This is mainly caused by a 327% increase in current liabilities from the previous period, which is due to an increase in relevant materials purchased and expenses incurred for operations. 11. Cash flow adequacy ratio: This is mainly caused by an increase in inventories. 12. Cash reinvestment ratio: This is mainly caused by an increase in intangible assets. 13. Degree of operating leverage: This is mainly caused by an increase in operating income arising from a substantial growth in operating revenue. 					

Information source: The financial statements audited and certified by the certified public accountants, and the consolidated financial statements for the first quarter of 2017 have been reviewed by the certified public accountants.

The formulae for analysis are as follows:

1. Financial structure

- (1) Liabilities to assets ratio = total liabilities/total assets.
- (2) Permanent capital to property, plant and equipment ratio = (total equity + non-current liabilities)/net value of property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets/current liabilities.
- (2) Quick ratio = (current assets - inventories - prepaid expenses)/current liabilities.
- (3) Interest coverage ratio = profit before income tax and interest expenses/interest expenses for the current period.

3. Operational capability

- (1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover ratio = net sales/average receivables balance (including accounts receivable and notes receivable arising from business operations) for each period.
- (2) Average collection period = 365/receivables turnover ratio.
- (3) Inventory turnover ratio = cost of goods sold/average inventory value.
- (4) Payables (including accounts payable and notes payable arising from business operations) turnover ratio = cost of goods sold/average payables balance (including accounts payable and notes payable arising from business operations) for each period.
- (5) Days' sales in inventory = 365/inventory turnover ratio.
- (6) Property, plant and equipment turnover ratio = net sales/average net value of property, plant and equipment.
- (7) Total assets turnover ratio = net sales/average total assets.

4. Profitability

- (1) Return on assets = [profit or loss after tax + interest expenses x (1 - tax rate)]/average total assets.
- (2) Return on equity = profit or loss after tax/average total equity.
- (3) Net profit margin = profit or loss after tax/net sales.
- (4) Earnings per share = (profit or loss attributable to owners of the parent company - preferred

dividends)/weighted average number of issued shares.

5. Cash Flow

(1) Cash flow ratio = net cash flow from operating activities/current liabilities.

(2) Cash flow adequacy ratio = net cash flow from operating activities for the last five fiscal years/(capital expenditures + inventory increase + cash dividends) for the last five fiscal years.

(3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends)/(gross value of property, plant and equipment + long-term investments + other non-current assets + working capital).

6. Degree of leverage:

(1) Degree of operating leverage = (net operating revenue – variable operating costs and expenses)/operating income.

(2) Degree of financial leverage = operating income/(operating income - interest expenses).

(2) Financial Analysis for the Last Five Fiscal Years - R.O.C. Financial Accounting Standards (Consolidated)

The Company has adopted the International Financial Reporting Standards recognized by

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he Financial Supervisory Commission since 2013.

(3) Financial Analysis for the Last Five Fiscal Years - International Financial Accounting Standards (Individual)

Analysis Item		Financial Analysis for the Last Five Fiscal Years				
		Fiscal Year	2013	2014	2015	2016
Financial structure (%)	Liabilities to assets ratio	28.56	11.73	13.85	37.41	37.48
	Permanent capital to property, plant and equipment ratio	5,221.72	5,143.17	7,997.69	6,867.89	6,837.85
Solvency	Current ratio (%)	188.51	644.02	629.35	230.08	235.68
	Quick ratio (%)	164.75	610.11	552.02	166.11	179.39
	Interest coverage ratio	(388.73)	(952.64)	(151.88)	100.59	80.51
Operational capability	Receivables turnover ratio (number of times)	3.32	2.47	11.66	6.85	8.32
	Average collection period	110	148	31	53	44
	Inventory turnover ratio (number of times)	2.39	1.49	1.58	2.62	4.66
	Payables turnover ratio (number of times)	2.91	2.40	3.29	3.38	5.24
	Days' sales in inventory	152	245	231	139	78
	Property, plant and equipment turnover ratio (number of times)	15.67	5.24	35.87	84.54	169.55
	Total assets turnover ratio (number of times)	0.26	0.08	0.46	0.83	1.55
Profitability	Return on assets (%)	(22.19)	(42.67)	(7.70)	5.69	19.66
	Return on equity (%)	(28.34)	(51.34)	(8.90)	7.84	31.04
	Pre-tax profit to paid-in capital ratio (%)	(15.22)	(41.74)	(8.13)	22.79	103.19
	Net profit margin (%)	(86.37)	(506.14)	(16.76)	6.81	12.54
	Earnings per share (NTD)	(1.45)	(3.75)	(1.44)	1.66	8.50
Cash Flow	Cash flow ratio (%)	(49.65)	(214.75)	(58.94)	(11.00)	44.29
	Cash flow adequacy ratio (%)	(217.35)	(471.42)	(169.79)	(63.21)	15.08
	Cash reinvestment ratio (%)	(16.70)	(26.90)	(9.13)	(6.37)	26.03
Degree of leverage	Degree of operating leverage	(0.86)	(0.06)	(7.39)	3.81	1.89
	Degree of financial leverage	1.00	1.00	0.99	1.01	1.01
<p>The explanations for financial ratios with changes in excess of 20% for 2016 as compared to 2015 are as follows:</p> <ol style="list-style-type: none"> 1. Receivables turnover ratio and average collection period: This is mainly caused by a growth in operating revenue wherein hardware sales account for a relatively high proportion of such growth (relatively short payment collection period for hardware sales). 2. Inventory turnover ratio and days' sales in inventory: This is mainly caused by an increase in cost of goods sold arising from a substantial growth in operating revenue. 3. Property, plant and equipment turnover ratio: This is mainly caused by a substantial growth in operating revenue. 4. Total assets turnover ratio: This is mainly caused by a substantial growth in operating revenue. 5. Return on assets: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 6. Return on equity: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 7. Pre-tax profit to paid-in capital ratio: This is mainly caused by a substantial increase in pre-tax profit arising from a turn from loss to profit for the current period. 8. Net profit margin: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period. 						

	<p>9. Earnings per share: This is mainly caused by a substantial increase in net profit after tax arising from a turn from loss to profit for the current period.</p> <p>10. Cash flow ratio: This is mainly caused by a 328% increase in current liabilities from the previous period.</p> <p>11. Cash flow adequacy ratio: This is mainly caused by an increase in inventories.</p> <p>12. Cash reinvestment ratio: This is mainly caused by an increase in intangible assets.</p> <p>13. Degree of operating leverage: This is mainly caused by an increase in operating income arising from a substantial growth in operating revenue.</p>
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Information source: The financial statements audited and certified by the certified public accountants.

The formulae for analysis are as follows:

1. Financial structure

- (1) Liabilities to assets ratio = total liabilities/total assets.
- (2) Permanent capital to property, plant and equipment ratio = (total equity + non-current liabilities)/net value of property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets/current liabilities.
- (2) Quick ratio = (current assets - inventories - prepaid expenses)/current liabilities.
- (3) Interest coverage ratio = profit before income tax and interest expenses/interest expenses for the current period.

3. Operational capability

- (1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover ratio = net sales/average receivables balance (including accounts receivable and notes receivable arising from business operations) for each period.
- (2) Average collection period = 365/receivables turnover ratio.
- (3) Inventory turnover ratio = cost of goods sold/average inventory value.
- (4) Payables (including accounts payable and notes payable arising from business operations) turnover ratio = cost of goods sold/average payables balance (including accounts payable and notes payable arising from business operations) for each period.
- (5) Days' sales in inventory = 365/inventory turnover ratio.
- (6) Property, plant and equipment turnover ratio = net sales/average net value of property, plant and equipment.
- (7) Total assets turnover ratio = net sales/average total assets.

4. Profitability

- (1) Return on assets = [profit or loss after tax + interest expenses x (1 - tax rate)]/average total assets.
- (2) Return on equity = profit or loss after tax/average total equity.
- (3) Net profit margin = profit or loss after tax/net sales.
- (4) Earnings per share = (profit or loss attributable to owners of the parent company - preferred dividends)/weighted average number of issued shares.

5. Cash Flow

- (1) Cash flow ratio = net cash flow from operating activities/current liabilities.
- (2) Cash flow adequacy ratio = net cash flow from operating activities for the last five fiscal years/(capital expenditures + inventory increase + cash dividends) for the last five fiscal years.
- (3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends)/(gross value of property, plant and equipment + long-term investments + other non-current assets + working capital).

6. Degree of leverage:

- (1) Degree of operating leverage = (net operating revenue – variable operating costs and expenses)/operating income.
- (2) Degree of financial leverage = operating income/(operating income - interest expenses).

(4) Financial Analysis for the Last Five Fiscal Years - R.O.C. Financial Accounting Standards (Individual)

The Company has adopted the International Financial Reporting Standards recognized by the Financial Supervisory Commission since 2013.

3. Audit Committee's Audit Report for the Financial Statements of the Last Fiscal Year: Please refer to Page 181 for details.
4. Financial Statements for the Last Fiscal Year, including an Audit Report Prepared by Certified Public Accountants, a Two-Year Comparative Balance Sheet and Consolidated Income Statement, Statement of Changes in Equity, Cash Flow Statement, and Any Attached Notes or Appendices: Please refer to Pages 182 to 234 for details.
5. Parent Company Only Financial Statements for the Last Fiscal Year, Audited and Certified by Certified Public Accountants: Please refer to Pages 235 to 286 for details.
6. If the Company or its Affiliated Enterprises have Experienced Financial Difficulties During the Last Fiscal Year or the Current Fiscal Year up to the Date of Publication of the Annual Report, an Explanation on the Effect of the said Difficulties on the Company's Financial Situation should be Provided: no such situation.

VII. Review and Analysis of Financial Status and Financial Performance, and Risk Matters

1. Financial Situation: Main reason(s) for any material change to the assets, liabilities or equity over the last two fiscal years, and the impact of such changes. An explanation on the planned future contingency measures should be included if the impact is of material significance

Unit: NTD '000

Item	Fiscal Year	2017	2016	Difference	
				Amount	%
Current assets		3,238,969	2,170,794	1,068,175	49.21
Investments accounted for using equity method		-	-	-	-
Property, plant and equipment		33,758	23,874	9,884	41.40
Intangible assets		200,641	217,136	(16,495)	(7.60)
Other assets		154,300	81,254	73,046	89.90
Total assets		3,627,668	2,493,058	1,134,610	45.51
Current liabilities		1,363,586	933,703	429,883	46.04
Non-current liabilities		-	1,285	(1,285)	(100.00)
Total liabilities		1,363,586	934,988	428,598	45.84
Share capital		709,323	695,573	13,750	1.98
Capital reserves		942,038	742,625	199,413	26.85
Retained earnings		707,217	114,026	593,191	520.22
Other equities		(94,496)	5,846	(100,342)	1,716.42
Total equity		2,264,082	1,558,070	706,012	45.31

1. For items with a 20% or more variation between the previous and current periods, and the variation amount reaches NTD 10 million, an explanation should be provided:

- (1) Current assets: The growth of the main revenue resulted in a substantial increase in cash, fund investment, and accounts receivable, and the amount of inventory is also increased from the previous period due to stock demand.

- (2) Other assets: This is mainly due to increase in financial assets as measured by costs.

- (3) Current liabilities: The is mainly due to increase of purchasing materials payables related to revenue growth and operation, payable expenses and income tax liabilities compared to the previous period.

- (4) Capital reserves: This is mainly due to the implementation of employees in employee stock warrants and issuing of new restricted employee shares.

(5) Retained earnings: The net profit after tax of 2016 was not distributed based on the resolution of shareholder meeting on June 22, 2017, and the net profit for the year ended in 2017 is grown substantially.

(6) Other equities: This is mainly due to unearned remuneration of the issued new restricted employee shares.

2. Planned future contingency measures when the impact is of material significance: Nil.

2. Financial Performance: Main Reasons for Any Material Change to Operating Revenue, Operating Profit or Pre-tax Profit for the Last Two Fiscal Years; the Sales Volume Forecast and the Basis, and the Possible Impact on the Company's Future Financial Operations and Contingency Measures

(1) Comparative Analysis of Financial Performance

Unit: NTD '000

Item \ Fiscal Year	2017	2016	Increase (Decrease) Amount	Percentage of Change (%)
Operating revenue	4,731,908	1,673,268	3,058,640	182.79
Gross operating profit	1,822,175	755,801	1,066,374	141.09
Net operating profit	776,643	136,019	640,624	470.98
Non-operating revenue and expenditure	(40,757)	22,733	(63,490)	(279.29)
Net profit before tax	735,886	158,752	577,134	363.54
Income Tax Expenses	142,695	44,726	97,969	219.04
Net profit for the current period	593,191	114,026	479,165	420.22
Other comprehensive income (net amount after tax) for the current period	(2,608)	681	(3,289)	(482.97)
Total comprehensive income for the current period	590,583	114,707	475,876	414.86

1. For items with a 20% or more variation between the previous and current periods, and the variation amount reaches NTD 10 million, an explanation should be provided:

- (1) Operating revenue: This is mainly due to a substantial growth in operating revenue arising from successful business development.
- (2) Gross operating profit: This is mainly due to a growth in operating revenue.
- (3) Net operating profit: This is mainly due to a growth in operating revenue.
- (4) Non-operating revenue and expenditure: This is mainly due to exchange rate losses arising from exchange rate fluctuations.
- (5) Net profit before tax: This is mainly due to an increase in net profit before tax arising from a substantial growth in operating revenue.
- (6) Income tax expenses: This is mainly due to an increase in income tax expenses arising from a substantial growth in operating revenue.
- (7) Net profit for the current period: This is mainly due to an increase in net profit before tax arising from a substantial growth in operating revenue.
- (8) Total comprehensive income for the current period: This is mainly due to an increase in net profit before tax arising from a substantial growth in operating revenue.

Item	Fiscal Year	2017	2016	Increase (Decrease) Amount	Percentage of Change (%)
2. Sales volume forecast and the basis therefore, as well as the possible impact on the company's future financial operations and contingency measures:					
<p>The Company's main products are biometric sensing IC and its applications. The Business Department formulated the sales volume forecast based on the sales forecast of existing products, development progress of new products, forecast value of customer production demand, with the business development strategy taken into account. Along with the trend on the introduction of fingerprint recognition applications into handheld devices, it is estimated that there will be a growth in sales volume. In the aspect of finance, capital expenditures are backed by long-term funding sources, and there should be no significant impact arising from any lack of funds for the short term.</p>					

3. Cash Flow: Explanation on the Analysis of Cash Flow Changes During the Last Fiscal Year; Improvement Measures to be Taken in Response to Illiquidity; and the Liquidity Analysis for the Coming Year

(1) Explanation on the analysis of cash flow changes during the last fiscal year (2017)

1. Financial Analysis

Unit: NTD '000

Opening cash balance	Net cash flow from operating activities for the year	Cash outflows (inflows) volume	Surplus (insufficient) amount	Remedial measures for insufficient cash	
				Investment plan	Financial plan
(1)	(2)	(3) (Note)	(1)+(2)-(3)		
859,795	592,793	298,877	1,153,711	NA	NA

2. Improvement measures for illiquidity: There is no any situation of illiquidity for the Company.

1. Liquidity analysis for the coming year (2018)

Unit: NTD '000

Opening cash balance	Estimated net cash flow from operating activities for the year	Estimated cash outflows (inflows) for the year	Estimated surplus (insufficient) cash amount	Remedial measures for estimated insufficient cash	
				Investment plan	Financial plan
(1)	(2)	(3)	(1)+(2)-(3)		
1,153,711	711,445	1,050,828	880,412	NA	NA

2. Improvement measures for illiquidity: There is no any situation of illiquidity for the Company.
3. Analysis on cash liquidity for the coming year (2018) and impact of major annual capital expenditure in recent years on financial operations:

4. Effect of Major Capital Expenditures on Financial Operations for the Last Fiscal Year: Nil.

5. Reinvestment Policy for the Last Fiscal Year; the Main Reasons for the Profits or Losses Generated Thereby and the Plan for Improving Reinvestment Profitability; and Investment Plans for the Coming Year

1. Reinvestment Policy

The Company has drafted the “Operating Procedures of Acquisition or Disposal of Assets” in accordance with the “Regulations Governing the Acquisition or Disposal of Assets by Public Companies” formulated by the competent authority, which serves as the basis for the Company’s conduct of its reinvestment business, enabling the Company to master the relevant business and financial situation. Furthermore, in order to improve the supervision and management of the invested companies, the Company has formulated the monitoring and management methods for the subsidiaries in the internal control system, and formulated the relevant regulations for the disclosure of information, finance, business, inventories and financial management, so as to realize the greatest effectiveness in the reinvestment matters of the Company.

2. Main reasons for the profits or losses generated from the reinvestment business in the last fiscal year, and the plan for improving reinvestment profitability

Unit: NTD ‘000

Name of reinvestment business	Main business item	Investment (losses) profits recognized in 2017	Main reasons for profits or losses	Plan for improving reinvestment profitability
Egis Inc.	Holding company	(102)	Operating losses.	-
Egis Technology (Japan) Inc.	Sales of information security software, biometric application software and hardware	(11,521)	Operating losses.	Continual development of the market to clinch new customers
Egis Tec USA Inc.	Technology development	322	Mainly research and development	-

Name of reinvestment business	Main business item	Investment (losses) profits recognized in 2017	Main reasons for profits or losses	Plan for improving reinvestment profitability
			expenses	
Egis Technology (Korea) Inc.	Customer service, business promotion and technical support	182	This is mainly due to operating expenses	-

3. Investment plan for the coming year

6. Risk Management Analysis and Evaluation

(1) Risk Management Policy

1.The Company intends to gradually strengthen the management of corporate risks in accordance with the latest development of internal auditing and standards requirements; the organizational structure of risk management is divided into three levels (mechanisms):

The first mechanism: For the organizer or contractor, it must be responsible for the measurement, design and prevention of the initial risk detection, evaluation and control.

The second mechanism: For the assessment of the general manager (or chief executive officer and vice president), in addition to being responsible for feasibility assessment, it also includes various risk assessments.

The third mechanism: For review of the legal affairs and audit department and deliberation of the Board of Directors/Audit Committee.

2.If the Company's important risk assessment matters do not need to be reviewed by the second and third mechanisms for implementation matters, it will conduct legal affairs to identify, assess and prevent risks with the audit office if necessary; usually if it finds that there is immediately potential risks, it can also be immediately reported to the superiors for prevention.

3.According to the provisions of Guidelines for Handling Internal Control of Public Issuance Companies, the Company establishes Self-inspection Procedures, Operation and Methods, handles regularly self-assessment internal control operations of each department and operation unit each year, so as to implement the company's self-supervision mechanism, to change the corresponding environment in a timely manner, to adjust the design and implementation of the

internal control system, and to enhance the audit quality and efficiency of the internal audit unit; its scope of self-assessment covers the execution and design of various internal control systems of the Company.

(2) Risk management organization form

Important risk assessment matters	(The first mechanism) Direct risk control unit	(The second mechanism) Risk review and control	(The third mechanism) Board of Directors, Audit Committee and Audit Office
1. Interest Rate, Exchange Rate and Financial Risks	Financial contractor	Directors at all levels and general manager	Board of Directors and Audit Committee (Decision-making and final control of risk assessment and control)
2. High-risk, high-leverage investment, capital loans to others, derivative commodity transactions, financial investment	Financial contractor	Directors at all levels and general manager	
3. Investment, Transfer of Investment and M&A Benefits	Stock and financial staff	Directors at all levels and general manager	
4. Research and Development Plan	Research and Development personnel	Directors at all levels, operation officer and general manager	Audit Office (Inspection, Improvement Tracking and Report of Risk)
5. Concentrated sales or purchases	Business Department, Purchasing Department and Financial Staff	Production and marketing meeting	
6. Changes in equity of directors and major shareholders	Stock	Board of Directors	
7. Changes in operating rights	Stock	Board of Directors	
8. Litigation and non-contentious matters	Legal affairs	General Manager	
9. Other business operations	Directors at all levels	General Manager	
10. Personnel behavior,	Directors at all	Labor-management	

morality and ethics	levels and Personnel Administration Department	conference	
11. Compliance with regulations	Directors at all levels	Legal affairs and audit	
12. Management of Board Meetings	Stock	Legal affairs and audit	

(3) Effect of Interest Rate, Exchange Rate Fluctuations and Inflation on the Profit and Loss of the Company and Future Contingency Measures

1. Interest Rate Fluctuations

(1) Effect on the Profit and Loss of the Company

The Company operates mainly on its own capital. The percentages of bank loans to total assets for the fiscal years 2016 and 2017 are 10.14% and 7.73%, respectively. The percentages of interest expenses to the net operating revenue are 0.1% and 0.19%, respectively, which are relatively small percentages. Therefore, interest rate fluctuations have a limited effect on the profit and loss of the Company. The Company will continue to closely monitor changes in the global and domestic economic environments in the future and take necessary measures whenever needed, in order to minimize the risk of interest rate fluctuations on the profits and losses of the Company.

(2) Specific Contingency Measures

The Company evaluates the bank loan interest rate on a regular basis and constantly monitors the financial market for any effects of interest rate fluctuations on the Company's allocation of funds, so as to duly implement adaptation measures. Therefore, interest rate fluctuations do not have any significant effect on the profits and losses of the Company.

2. Exchange Rate Fluctuations

(1) Effect of Exchange Rate Fluctuations on the Profit and Loss of the Company

The purchase and sales transactions of the Company are mainly denominated in the U.S. dollar. The net exchange profits (losses) of the Company in the fiscal years 2016 and 2017 are USD 4,031,000 and (52,815,000), respectively, whose rate to the Company's net operating revenue are approximately 0.24% and (1.12%), respectively and to the net loss before tax are (2.54%) and (7.18%), respectively, with relatively low percentages of impact. Therefore, exchange rate fluctuations have a limited effect on the Company.

(2) Specific Contingency Measures

- A. When providing customers with price quotations, the Business Department will take into account the exchange rate trends for quotation decision-making and make dynamic adjustments to quoted prices offered to customers, so as to avoid any significant impact on the Company's profits due to the exchange rate fluctuations.
- B. The natural hedging of foreign exchange risk will continue to be the main strategy for exchange rate risk control and management in the future, and the foreign currency assets and liabilities will be appropriately adjusted to lower the risks arising from exchange rate fluctuations.

3. Inflation

(1) Analysis of the Impact on the Company

The Company has not experienced any significant adverse impact from inflation up to this date. However, changes in the relevant economic environments and fluctuations in the market situations must be closely monitored for quick response to the situation accordingly.

(2) Specific Contingency Measures

- A. The Company will be aware of the fluctuations in market prices of upstream raw materials at all times, and maintain good interactions with suppliers and customers, so as to predict the market trends of the raw materials and lower the impact of rising prices.
- B. In accordance with fluctuations in the costs of raw materials, the Company will dynamically adjust the prices offered to customers when the preset tolerance intervals are exceeded, so as to avoid any significant impact on the Company due to inflation.

(4) Policies for High-Risk and High-Leverage Investments, Capital Loan to Others, Endorsements and Guarantees and Derivative Transactions as well as Major Causes of Profits and Losses and Future Contingency Measures

Risk Item	Implementation Status	Policies and Contingency Measures
High-Risk and High-Leverage Investments	The Company did not engage in any high-risk or high-leverage investments in the last fiscal year and the current fiscal year up to the date of publication of the annual report.	The Company is focused on its core business operations and hence did not allocate funds in any high-risk or high-leverage investments.
Loan of Funds to Other Parties	The Company did not loan any funds to other parties in the last fiscal year and the current fiscal year up to the date of publication of	Should the Company provide any loan of funds to other parties in the future, it shall be handled in accordance with the "Operating

	the annual report.	Procedures for Loan of Funds to Other Parties” formulated by the Company, and the operation should be publicly declared in accordance with the relevant laws and regulations.
Endorsements and Guarantees	The Company did not provide any endorsements or guarantees to other parties in the last fiscal year and the current fiscal year up to the date of publication of the annual report.	Should the Company provide any endorsements or guarantees to other parties in the future, it shall be handled in accordance with the “Operating Procedures for Endorsements and Guarantees” formulated by the Company, and the operation should be publicly declared in accordance with the relevant laws and regulations.
Derivative Transactions	The Company did not engage in any derivative transactions in the last fiscal year and the current fiscal year up to the date of publication of the annual report.	Should there be a need for the Company to engage in derivative transactions in the future, the Company shall adhere to the conservatism principle for the primary purpose of avoiding the risks arising from foreign exchange fluctuations, and shall publicly declare the operation in accordance with the relevant laws and regulations.

(5) Future Research and Development Plan and Estimated Research and Development Expenses Invested

1. Future Research and Development Plan

The Company will continue to use capacitive chips, together with the patented algorithm it has created upon research to actively develop a high-sensitivity, high-resolution, low-power-consumption and wear-resistant chips based on higher-order manufacturing process. In addition, the multi-biometric model will be available in the market in the future. Hence, the Company will actively develop the domain of the new biometric model. In terms of product portfolio, the Company will adopt an even more active approach in expanding the product line, including the Swipe and Touch chips, so as to fully meet the huge demand of different customers and end product applications.

2. Estimated Research and Development Expenses

The estimated research and development expenses of the Company are gradually allocated based on the progress of the development of new products and new technologies, and adjusted according to the market changes and the progress in the research and development of new products. The Company expects to invest approximately NTD 776,721,000 in research and development in 2017 in continual support of the future research and development plans, so as to sustain the market competitive advantages of the Company's products.

(6) Effect of Changes in Major Domestic and International Policies and Laws on the Financial Operations of the Company and Contingency Measures

The Company's routine operations shall be in compliance with the relevant domestic and international laws and regulations, and the Company will monitor the development trends of domestic and international policies and changes in the laws at all times. The Company will also gather relevant information as reference for decision-making at the operational level and make adjustments to the relevant operational strategies of the Company. The Company's financial operations have not been affected by any changes in major domestic and international policies and laws in the last fiscal year and the current fiscal year up to the date of publication of the annual report.

(7) Effect of Technological Innovation and Industrial Changes on the Financial Operations of the Company and Contingency Measures

The Company will monitor the relevant technological development and changes of its industry at all times so as to grasp the industry trends and continually improve its research and development capabilities. The Company will actively expand the

field of applications for the future market so as to ensure that the Company maintains its market competitive advantages. The Company's financial operations have not been affected by any technological innovation or industrial changes in the last fiscal year and the current fiscal year up to the date of publication of the annual report.

(8) Effect of Changes in Corporate Image on Crisis Management and Contingency Measures

Since its establishment, the Company has focused on its core business operations, adhering to relevant laws and regulations, actively strengthening internal control and improving management quality and performance, so as to uphold the good corporate image of the Company and increase customer trust. The Company has not faced any operational crisis due to changes in the Company's corporate image in the last fiscal year and the current fiscal year up to the date of publication of the annual report. However, as the enterprise may face considerably huge damages due to corporate crisis, the Company will continue to execute all the requirements of corporate governance so as to minimize the occurrence of corporate risk and such impact on the Company.

(9) Expected Benefits and Potential Risks of Mergers and Acquisitions as well as Contingency Measures

The Company has no plans for mergers and acquisitions in the last fiscal year and the current fiscal year up to the date of the printing of the annual report. Should there be any plans for mergers and acquisitions in the future, the Company shall adhere to the "Operating Procedures of Acquisition or Disposal of Assets", and uphold the attitude of prudential assessment when conducting various cost-benefit evaluations and risk control management, so as to protect the Company's interests and shareholders' equity.

(10) Expected Benefits and Potential Risks of Factory Expansion as well as Contingency Measures

The Company does not have a factory site, and has no plans for the establishment or expansion of a factory in the future. Therefore, this is not applicable.

(11) Risk Faced of Purchases or Sales and Contingency Measures

1. In terms of purchases

The Company is a professional IC design company and thus does not own a foundry. At present, its purchases are concentrated in the foundry in Taiwan, in order for the IC design company to receive a reliable and stable output of wafers and shorten the time required for the commercial sale of products. As the foundry possesses the industry characteristic in the use of the same semiconductor manufacturing process, and taking into consideration the technology of the manufacturing process, the quality yield, the sufficiency of output and the coordination of delivery dates, the Company is inclined to maintain a long-term and close working relationship with the appointed foundry. Should the production output of the collaborating foundry be insufficient, the Company may face the risk of supply shortage or delay in goods delivery. In view of the aforementioned risks, besides maintaining a good cooperative relationship between the Company and the collaborating foundry, the Company shall also not exclude the possibility of working with other foundries, so as to provide more choices and security in terms of the quality, source, and prices of the raw materials.

2. In terms of sales

The Company's sales to Yin Company and Mao Company in 2016 amounted to NTD 1,174,868,000 and NTD 282,837,000, respectively, accounting for 70.21% and 16.90% of the operating revenue for the year, respectively. Thus, the risk of sales concentration in Yin Company and Mao Company is evident. The Company mainly provides Yin Company and Mao Company with the biometric sensor chips and the licensing of relevant software. Following the rise in market demand for fingerprint sensor chips, the Yin Company and Mao Company will continue to work with the Company to develop new products to accommodate different end user markets. The Company will also actively acquire new customers and provide new services so as to reduce sales concentration, thus lowering the risk arising from sales concentration.

(12) Effect and Risks of Material Transfer of or Change in the Equity of Directors, Supervisors or Major Shareholders with shareholding of More Than 10% on the Company as well as Contingency Measures: no such situation.

(13) Effect and Risk of Changes in Management Rights on the Company as well as Contingency Measures: no such situation.

(14) With regard to litigious and non-litigious matters, major litigious matters, non-litigious matters, and administrative litigious matters involving the Company and its directors, supervisors, general manager, de facto responsible person, major shareholders with shareholding of more than 10%, and subsidiary companies for which a judgment has become final or is still pending judgment, as well as those whose outcome could significantly affect shareholders' equity or the prices of the Company's securities should be clearly listed, the facts in contention, the value of the object of litigation, the start date of litigation, the main party or parties involved, and the status of the case up to the date of publication of the annual report should be disclosed: no such situation.

(15) Other Important Risks and Contingency Measures: Nil.

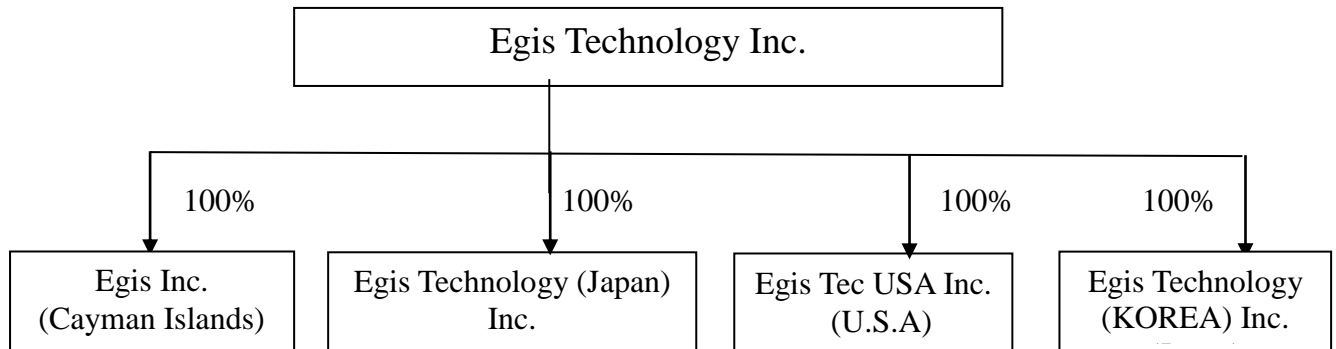
7. Other Significant Matters: Nil.

VIII. Special Notes

1. Relevant Information on Affiliated Enterprises

(1) Affiliated Enterprises

December 31, 2017



(2) Basic Information of Affiliated Enterprises

Unit: NTD Thousands

Name of Enterprise	Date of Establishment	Address	Paid-in Capital	Main business item
Egis Inc.	06/04/2007	Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112 , Cayman Islands	678,340	Holding company
Egis Technology (Japan) Inc.	08/18/2009	Mita Kokusai Bldg. 3F., 1-4-28, Mita, Minato-ku, Tokyo, 108-0073 Japan	67,846	The sales of information security software, biometric application software and hardware
Egis Tec USA Inc.	08/15/2016	2050 Ringwood Ave., Ste. A, San Jose, CA 95131-1728	31,260	Technology development
Egis Technology (Korea) Inc.	11/23/2017	17 Daehak 4-ro, Ace Gwanggyo Tower #516, Yeongtong, Suwon, Gyeonggi	2,923	Customer service, business promotion and technical support

(3) Information on Shareholders Representing Both the Holding Company and Subordinates: Nil.

(4) Industries covered by the operations of all affiliated enterprises: The design, development, production and sales of capacitive fingerprint sensor chips, the integration of the IC design and solutions of domestic fingerprint sensors chips and software design.

(5) Names and Shareholding or Capital Contribution Status of Directors, Supervisors, And General Managers of Affiliated Enterprises

December 31, 2017 Unit: Thousand Shares;%

Name of Enterprise	Position	Name or Representative	Shareholding	
			Number of Shares	Shareholding Ratio
Egis Inc.	Director	Representative of Egis Technology Inc.: Sen-Chou Lo	25,848	100%
Egis Technology (Japan) Inc.	General Manager	Representative of Egis Technology Inc.: Peter, Lin	4,740	100%
Egis Tec USA Inc.	Director	Representative of Egis Technology Inc.: Chieh-Pin Su	1,000	100%
Egis Technology (Korea) Inc.	Director	Representative of Egis Technology Inc.: Jimmy, Hsu	1,000	100%

(6) Overview of Business Operations of Affiliated Enterprises

December 31, 2017 Unit: NTD Thousands

Name of Enterprise	Capital	Total assets	Total liabilities	Net Value	Operating revenue	Operating income	Profit and loss for the current period (After Tax)	Earnings Per Share (NTD) (After Tax)
Egis Inc.	678,340	10,084	0	10,084	0	(163)	(116)	(0.004)
Egis Technology (Japan) Inc.	67,846	7,924	1,707	6,217	0	(13,120)	(13,330)	(2.81)
Egis Tec USA Inc.	31,260	15,677	2,099	13,578	0	(18,552)	(18,384)	(18.38)
Egis Technology (Korea) Inc.	2,923	2,996	0	2,996	0	0	182	182

Note: If the affiliated enterprise is a foreign company, the relevant numbers shown will be based on conversion to NTD using the exchange rate on the date of the report.

- Status of Private Placement of Securities in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report: no such situation.
- Shares in the Company Held or Disposed of by Subsidiaries in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report: no such situation.
- Other Necessary Supplementations:

Explanation on the Non-fulfillment of OTC Trading Commitments by the Company

OTC Trading Commitments	Status of Compliance with Commitments
In the "Operating Procedures of Acquisition or Disposal of Assets", the addition of "The Company shall not cease capital injections into Egis Inc. and Egis Technology (Japan) for the respective fiscal years in the future. Should the Company have to cease the capital injections into or to dispose of the aforementioned company due to strategic alliance considerations or other factors, the Company must gain the approval of Taipei Exchange and raise it to the Company's Board of Directors for the passing of a special resolution." Should the said operating procedures be revised after the approval by the Board of Directors, it should be entered into the Market Observation Post System as material information disclosure and reported to Taipei Exchange for future reference.	<ol style="list-style-type: none"> The Company has provided the Letter of Commitment which will be disclosed in the prospectus. The Company has passed the resolution on the addition of the content stated on the left to Article 5, Paragraph 6 of the "Operating Procedures of Acquisition or Disposal of Assets" during the Board meeting on August 13, 2015, and this has been entered into the Market Observation Post System as material information disclosure on the same day.

IX. Matters that Significantly Affected Shareholders' Equity and Prices of Securities Pursuant to Item 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report: None.

Audit Report of Audit Committee

It is hereby approved that

The Board of Directors delivered the individual financial statements and consolidated financial statements, business reports and surplus distribution statements for the year of 2017 of the Company, among which the individual financial statements and consolidated financial statements for the year of 2017 were jointly audited by Accountant Weiming, Zhang and Cijie, Tang from KPMG Accounting Firm and issued a check report.

All the tables prepared by the above-mentioned Board of Directors are considered no discrepancy after being reviewed by the Audit Committee. In accordance with the provisions of Articles 14(4) of the Security Exchange Act and Article 219 of the Company Law, the Report is subject to inspection.

This report is hereby provided for

2018 Annual General Meeting of Egis Technology Inc.

Audit committee convener: Ding- Jung Lu

March 5, 2018

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**EGIS TECHNOLOGY INC.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)**

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

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Egis Technology Inc. as of and for the year ended December 31, 2017 under the “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises” are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Egis Technology Inc. and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: Egis Technology Inc.
Chairman: Sen Chou, Lo
Date: March 5, 2018



安侯建業聯合會計師事務所

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Independent Auditors' Report

The Board of Directors
Egis Technology Inc.:

Opinion

We have audited the consolidated financial statements of Egis Technology Inc. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

1. Impairment of goodwill

Please refer to Note 4(1) "Impairment of non-financial assets" for the significant accounting policies on goodwill impairment, Note 5(a) "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of goodwill impairment and Note 6(g) "Intangible assets" for the related disclosures.

Description of key audit matter:

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

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included: evaluating the appropriateness of the discount rates used by management in estimating the recoverable amounts of goodwill by comparing them to internal and independent sources; assessing the appropriateness of future cash flow estimation and key assumptions (which include the appropriateness of sales growth rate, gross margin rate and operating expense ratio); comparing the results of past forecast and actual operating performance to verify the appropriateness of the method used in predicting the future cash flows.

2. Valuation of inventories

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

Other Matter

Egis Technology Inc. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unqualified audit opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Wei-Ming Shih and Tzu-Chieh Tang.

KPMG

Taipei, Taiwan (Republic of China)
March 5, 2018

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016		
	Amount	%	Amount	%	Amount	%	Amount	%	
Assets									
Current assets:									
1100 Cash and cash equivalents (notes 6(a) and (r))	\$ 1,153,711	31	859,795	35	2100	280,519	8	252,693	10
1110 Financial assets at fair value through profit or loss – current (notes 6(b) and (r))	57,912	2	-	-	2170	642,598	18	468,119	19
1170 Accounts receivable, net (notes 6(c) and (r))	729,289	20	407,697	16	2230	128,889	3	3,520	-
130X Inventories (note 6(g))	699,553	19	548,791	22	2399	311,580	9	209,371	9
1470 Prepayments and other current assets	65,088	2	46,399	2		1,363,586	38	933,703	38
1476 Other financial assets – current (notes 6(a) and (r) and 8)	533,416	15	308,112	12	2570	-	-	1,285	-
Total current assets	3,238,969	89	2,170,794	87		1,363,586	38	934,988	38
Non-current assets:									
1543 Financial assets carried at cost – non-current (notes 6(e) and (r))	93,835	3	20,000	1		704,908	19	688,393	28
1600 Property, plant and equipment (note 6(f))	33,758	1	23,874	1	3140	4,415	-	7,180	-
1780 Intangible assets (note 6(g))	200,641	6	217,136	9	3200	942,038	26	742,625	30
1840 Deferred income tax assets (note 6(k))	50,690	1	55,204	2		11,403	-	-	-
1995 Other non-current assets (note 6(r))	9,775	-	6,050	-		695,814	19	114,026	4
Total non-current assets	388,699	11	322,264	13		11,403	-	114,026	4
Total assets	\$ 3,627,668	100	2,493,058	100		\$ 3,627,668	100	2,493,058	100
Liabilities and Equity									
Current liabilities:									
Short-term borrowings (notes 6(h)(r)(s) and 8)									
Notes and accounts payable (notes 6(r) and (s))									
Current tax liabilities									
Other payables (notes 6(p)(r)(s))									
Total current liabilities									
Non-current liabilities:									
Deferred income tax liabilities (note 6(k))									
Total liabilities									
Equity (notes 6(i) and (m)):									
Common stock									
Common stock subscribed									
Capital surplus									
Retained earnings:									
Legal reserve									
Unappropriated earnings									
Other equity interest:									
Exchange differences on translation of foreign financial statements									
Deferred compensation cost arising from issuance of restricted stock									
Total equity									
Total liabilities and equity									

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

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

	2017		2016	
	Amount	%	Amount	%
4000 Revenue (notes 6(o) and 14)	\$ 4,731,908	100	1,673,268	100
5000 Costs of revenue (notes 6(d)(f) and 12)	<u>2,909,733</u>	<u>61</u>	<u>917,467</u>	<u>55</u>
Gross profit	<u>1,822,175</u>	<u>39</u>	<u>755,801</u>	<u>45</u>
Operating expenses (notes 6(c)(f)(g)(i)(j)(m)(p), 7 and 12):				
6100 Selling expenses	354,003	8	134,793	8
6200 Administrative expenses	173,516	4	96,029	6
6300 Research and development expenses	<u>518,013</u>	<u>11</u>	<u>388,960</u>	<u>23</u>
Total operating expenses	<u>1,045,532</u>	<u>23</u>	<u>619,782</u>	<u>37</u>
Operating income	<u>776,643</u>	<u>16</u>	<u>136,019</u>	<u>8</u>
Non-operating income and loss:				
7010 Other income (note 6(q))	22,223	-	20,720	1
7020 Other gains and losses, net (notes 6(q) and (s))	(53,774)	(1)	3,605	-
7050 Finance costs (note 6(q))	<u>(9,206)</u>	<u>-</u>	<u>(1,592)</u>	<u>-</u>
Total non-operating income and loss	<u>(40,757)</u>	<u>(1)</u>	<u>22,733</u>	<u>1</u>
Income before taxes	735,886	15	158,752	9
7950 Income tax expense (note 6(k))	<u>142,695</u>	<u>2</u>	<u>44,726</u>	<u>2</u>
Net income	<u>593,191</u>	<u>13</u>	<u>114,026</u>	<u>7</u>
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
8360 Exchange differences on translation of foreign operations (note 6(l))	(2,608)	-	681	-
8399 Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
Other comprehensive income for the year, net of taxes	<u>(2,608)</u>	<u>-</u>	<u>681</u>	<u>-</u>
Total comprehensive income for the year	<u>\$ 590,583</u>	<u>13</u>	<u>114,707</u>	<u>7</u>
Earnings per share (in New Taiwan dollars) (note 6(n)) :				
9750 Basic earnings per share	<u>\$ 8.50</u>		<u>1.66</u>	
9850 Diluted earnings per share	<u>\$ 8.41</u>		<u>1.63</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2017 and 2016**

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent							Total equity
	Retained earnings			Total other equity interest				
	Common stock	Common stock subscribed	Capital Surplus	Legal reserve	Unappropriated earnings (accumulated deficit)	Exchange differences on translation of foreign operations	Deferred compensation cost arising from issuance of restricted stock	
Balance at January 1, 2016	\$ 684,693	-	749,662	-	(89,590)	5,165	-	1,349,930
Decrease in capital surplus to offset accumulated deficit	-	-	(89,590)	-	89,590	-	-	-
Issuance of common stock from exercise of employee stock options	3,700	7,180	50,098	-	-	-	-	60,978
Compensation cost of employee stock options	-	-	32,455	-	-	-	-	32,455
Net income in 2016	-	-	-	-	114,026	-	-	114,026
Other comprehensive income in 2016	-	-	-	-	-	681	-	681
Total comprehensive income in 2016	-	-	-	-	114,026	681	-	114,707
Balance at December 31, 2016	688,393	7,180	742,625	-	114,026	5,846	-	1,558,070
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	-	11,403	(11,403)	-	-	-
Issuance of common stock from exercise of employee stock options	10,795	(2,765)	57,830	-	-	-	-	65,860
Compensation cost of employee stock options	-	-	14,993	-	-	-	-	14,993
Issuance of restricted employee stock	5,720	-	126,590	-	-	-	(132,310)	-
Compensation cost arising from restricted shares of stock issued to employees	-	-	-	-	-	-	34,576	34,576
Net income in 2017	-	-	-	-	593,191	-	-	593,191
Other comprehensive income in 2017	-	-	-	-	-	(2,608)	-	(2,608)
Total comprehensive income in 2017	-	-	-	-	593,191	(2,608)	-	590,583
Balance at December 31, 2017	\$ 704,908	4,415	942,038	11,403	695,814	3,238	(97,734)	2,264,082

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed Thousands of New Taiwan Dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Income before income taxes	\$ 735,886	158,752
Adjustments for:		
Depreciation	14,125	14,534
Amortization	22,016	5,818
Net gain on financial assets at fair value through profit or loss	(71)	-
Interest expense	9,206	1,592
Interest income	(15,477)	(5,282)
Share-based payments	49,569	32,455
Loss on disposal of property, plant and equipment	243	-
Impairment loss on accounts receivable	24,560	-
	<u>104,171</u>	<u>49,117</u>
Changes in operating assets and liabilities:		
Accounts receivable	(346,152)	(326,548)
Inventories	(150,762)	(397,460)
Prepayments and other current assets	(17,756)	(29,961)
Notes and accounts payable	174,479	393,306
Other payables	105,308	59,887
Total changes in operating assets and liabilities	<u>(234,883)</u>	<u>(300,776)</u>
Cash provided by (used in) operations	605,174	(92,907)
Interest received	11,172	3,266
Interest paid	(9,115)	(1,477)
Income taxes paid	(14,438)	(40,862)
Net cash provided by (used in) operating activities	<u>592,793</u>	<u>(131,980)</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from investing activities:		
Purchase of financial assets at fair value through profit or loss	(57,841)	-
Increase in financial assets carried at cost	(73,835)	(20,000)
Acquisition of property, plant and equipment	(28,075)	(18,062)
Proceeds from disposal of property, plant and equipment	13	-
Additions to intangible assets	(5,521)	(76,563)
Increase in other financial assets	(220,999)	(164,918)
Increase in refundable deposits	(3,766)	(2,711)
Net cash used in investing activities	(390,024)	(282,254)
Cash flows from financing activities:		
Proceeds from short-term borrowings	1,929,570	363,132
Decrease of short-term borrowings	(1,901,744)	(140,439)
Proceeds from exercise of employee stock options	65,860	60,978
Net cash provided by financing activities	93,686	283,671
Effects of foreign exchange rate changes	(2,539)	653
Net increase (decrease) in cash and cash equivalents	293,916	(129,910)
Cash and cash equivalents at beginning of year	859,795	989,705
Cash and cash equivalents at end of year	\$ 1,153,711	859,795

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

1. Organization and business

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

On February 1, 2007, the Company acquired the business and operating assets of Arachnoid Biometrics Identification Group Corp. ("ABIG"). ABIG was primarily involved in developing and selling software of fingerprint identifications.

iGroup Technology Inc. ("iGroup") owned 100% shares of the Company. On February 25, 2008, the Board of Directors approved a resolution for the Company to merge with Egis International Technology Inc., ("Egis International"), an indirect wholly owned subsidiary of iGroup. The merger was completed on April 1, 2008 through an issuance of 5,100,000 shares of the Company using 1:1 exchange ratio. Upon the completion of the merger, the Company became the surviving company and changed its name to Egis Technology Inc.

On May 5, 2008, the Board of Directors approved a resolution for the Company to acquire 100% equity ownership of Egis Inc., the subsidiary of iGroup, for the total purchase consideration of US \$25,398 (equivalent to TW \$781,088). Egis Inc. and its subsidiaries primarily engaged in the development and sale of data security software.

iGroup gradually sold its shares of the Company to its shareholders beginning July 1, 2008. On January 14, 2009, iGroup did not hold any of the Company stock.

On June 19, 2008, the Board of Directors approved a resolution for the Company to merge with LighTuning Tech Inc. ("LTT"). The Company issued 12,380 shares to the shareholders of LTT using a stock exchange ratio of 1:2.34615. The Company is the surviving company. LTT primarily engaged in the development and sale of biometric authentication hardware.

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 5, 2018.

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

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, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014
Amendments to IAS 39 “Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017 :

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had financial assets measured at cost of \$ 93,835 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018, resulting in an increase of \$ 1,175 thousand in its reserves.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group's assessment indicated that application of IFRS 9's impairment requirements would not have any material impact on the financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

1) Sales of goods

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group has performed an assessment that the timing of the related risks and rewards of the goods ownership transferred is similar to the timing when control is transferred, and the Group does not expect that there will be significant impact on its financial statements.

2) Transition

The Group plans to adopt IFRS 15 in its financial statements using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its financial statements.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period (January 1, 2017) presented, are not restated.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group assessed that the application of the amendments would not have any significant impact on the financial statements.

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

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(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 IASB, but not yet 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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

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

<u>Issuance / Release</u>	<u>Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
	January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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

(Continued)

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

4. Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows and have been applied consistently to all periods presented in these financial statements.

(a) Statement of compliance

The Group's accompanying consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (the "Regulations") and the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (collectively "Taiwan-IFRSs").

(b) Basis of preparation

(i) Basis of measurement

The accompanying consolidated financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair value.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

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

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

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

(Continued)

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

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

The subsidiaries included in the consolidated financial statements were as follows:

Name of Investor	Name of Subsidiary	Principal Activity	Shareholding	
			December 31, 2017	December 31, 2016
The Company	Egis Inc.(Cayman Islands)	Investment and holding activity	100 %	100 %
The Company	Egis Technology (Japan) Inc.	Sale of data security software and biometric authentication software and hardware	100 %	100 %
The Company	Egis Tec USA Inc.	Technology development	100 %	100 %
The Company	Egis Technology Korea Inc.	Customer service, Business promotion and technical support	100 %	-

Note 1: On May 5, 2017, the Board of Directors approved a resolution for the Company to establish a 100% owned subsidiary of Egis Technology Korea Inc., for KRW \$100,000 thousand (equivalent to TW \$2,923 thousand). Egis Technology Korea Inc. is primarily involved in customer service relating to fingerprint identification, business promotion and technical support.

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

(d) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period ("the reporting date") of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in foreign currencies that are measured at historical cost are not retranslated.

(ii) Foreign operations

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

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

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

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

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

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

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

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

(f) Cash and cash equivalents

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

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis.

(Continued)

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) **Financial assets at fair value through profit or loss**

A financial assets are classified in this category if they are acquired principally for the purpose of selling in the short term.

Financial assets in this category are measured at fair value at initial recognition. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend income and interest income) are recognized in profit or loss, and included in other gains and losses.

2) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other financial assets. At initial recognition, such assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method less any impairment loss.

Interest income is recognized as non-operating income in profit or loss.

3) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and recognized as non-operating income in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss and are reported as financial assets measured at cost.

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive the dividends (usually the ex-dividend date).

4) **Impairment of financial assets**

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting date. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, such asset is included in the group of financial assets with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase of delayed payments, and national or local economic conditions that correlate with overdue receivables.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Except for the write-off of uncollectible receivables against the allowance account, changes in the amount of the allowance account are recognized in profit or loss.

The impairment loss and reversal gain for accounts receivable are recognized as selling expenses, as well as non-operating income and loss for financial assets other than accounts receivable.

(Continued)

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**5) **Derecognition of financial assets**

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in the non-operating income and loss of the consolidated statement of comprehensive income.

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that has been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(ii) **Financial liabilities and equity instruments**1) **Classification of debt or equity**

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

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

2) **Other financial liabilities**

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, notes and accounts payable and other payables, are measured at fair value, plus, any directly attributable transaction cost at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest expense which is not capitalized as asset is recognized in profit or loss, and included in non-operating income and losses.

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

3) **Derecognition of financial liabilities**

The Group derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and included in the non-operating income and losses of the consolidated statements of comprehensive income.

4) **Offsetting of financial assets and liabilities**

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

(h) **Inventories**

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

(i) **Property, plant and equipment**

(i) **Recognition and measurement**

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as non-operating income and loss.

(ii) **Subsequent costs**

Subsequent costs are capitalized only when it is probable that the future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced parts is derecognized in profit and loss. All other repairs and maintenance are charged to expense as incurred.

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

(iii) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. The depreciation is recognized in profit or loss.

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

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

(j) Leases

Leases are classified as finance leases when the Group assumes substantially all the risks and rewards incidental to ownership of the assets. All other leases are classified as operating leases.

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

(k) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

Other separately acquired intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the following estimated useful lives: computer software- 2 to 3 years; patent- 3 to 13 years; technology- 8 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(Continued)

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

(l) Impairment of non-financial assets

(i) Goodwill

For the purpose of impairment testing, goodwill arising from a business combination is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. The CGUs with goodwill are tested annually (or when there are indications that a CGU may have been impaired) for impairment. When the recoverable amount of a CGU is less than the carrying amount of the CGU, the impairment loss is recognized firstly by reducing the carrying amount of any goodwill allocated to the CGU and then is proportionately allocated to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

(ii) Other tangible and intangible assets

Non-financial assets other than inventories and deferred income tax assets are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the CGU to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value, less, costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss immediately.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization of depreciation) that would have been determined had no impairment loss been recognized in prior years.

(m) Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of consideration received or receivable, net of returns, rebates, and other similar discounts.

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

(i) Sale of goods and royalty revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards when selling biometric authentication IC sensor varies depending on the individual terms of the sales agreement.

Royalty revenue arising from the sale of data security software and fingerprint identification software to hardware firm to be bundled with its computer or mobile phone products is recognized when there is a software license agreement, the price and payment terms are determined and the obligation has been completed. According to the software license agreement, the shipment report provided by the hardware firm is usually in the next quarter of its hardware product sales. Accordingly, the Group recognizes the royalty revenue when the shipment report is obtained.

(ii) Services

Revenue from non-recurring engineering service is recognized by reference to the stage of completion at the reporting date.

(iii) Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term employee benefits

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

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

(o) **Share-based payment**

Share-based payment awards granted to employees are measured at fair value at the date of grant. The fair value determined at the grant date is expensed over the period that the employees become unconditionally entitled to the awards, with a corresponding increase in equity. The compensation cost is adjusted to reflect the number of awards given to employees for which the performance and non-market conditions are expected to be met, such that the amount ultimately recognized shall be based on the number of equity instruments that eventually vested.

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

(p) **Income taxes**

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when where is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(q) **Business combinations**

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

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

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

(r) **Earnings per share ("EPS")**

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

(s) **Operating segments**

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

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements, in conformity with the Regulations and Taiwan-IFRSs, requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

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

(a) Impairment of goodwill

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

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

(b) Valuation of inventories

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

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

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

6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	\$ 486	436
Bank deposits	409,017	482,034
Time deposits	625,168	377,325
Repurchase agreements—bond	119,040	-
	<u>\$ 1,153,711</u>	<u>859,795</u>

As of December 31, 2017 and 2016, the time deposits with original maturities of more than three months amounted to \$426,528 and \$243,352, respectively, which were classified as other financial assets—current.

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

	December 31, 2017	December 31, 2016
Open-end mutual fund	<u>\$ 57,912</u>	<u>-</u>

(Continued)

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(c) Accounts receivable, net

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 753,849	407,697
Less : allowance for doubtful receivables	<u>(24,560)</u>	<u>-</u>
	<u>\$ 729,289</u>	<u>407,697</u>

Aging analysis of accounts receivable that are overdue but not impaired is as follows:

	December 31, 2017	December 31, 2016
Past due 0~30 days	\$ -	42,775
Past due 31~90 days	-	10,962
Past due 91~180 days	<u>-</u>	<u>6,189</u>
	<u>\$ -</u>	<u>59,926</u>

Accounts receivable that are past due but has not recognized a specific allowance for doubtful receivables are still considered recoverable based on the assessment of the historical payment behavior and current financial condition of customers.

Movements of the allowance for doubtful receivables for the periods were as follows:

	Individually assessed for impairment	Collectively assessed for impairment	Total
Balance at January 1, 2017	\$ -	-	-
Impairment loss recognized	<u>24,560</u>	<u>-</u>	<u>24,560</u>
Balance at December 31, 2017	<u>\$ 24,560</u>	<u>-</u>	<u>24,560</u>

(d) Inventories

	December 31, 2017	December 31, 2016
Raw materials	\$ 155,197	46,225
Work in process	535,676	500,527
Finished goods	<u>8,680</u>	<u>2,039</u>
	<u>\$ 699,553</u>	<u>548,791</u>

In 2017 and 2016, the amounts of inventories recognized as cost of revenue amounted to \$2,791,572 and \$834,953, respectively; the write-downs of inventories to net realizable value amounted to \$86,842 and \$82,514, respectively, which were included in cost of revenue.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(e) Financial assets carried at cost – non-current

	December 31, 2017	December 31, 2016
Non-publicly trades stocks	\$ 93,835	20,000

Since there is a wide range of estimated fair values of the Group's investments in non-publicly traded stocks, the Group concludes that the fair value cannot be reliably measured and therefore should be measured at the cost less any impairment.

(f) Property, plant and equipment

	Tooling	Research and development equipment	Leasehold improvement	Other equipment	Total
Cost:					
Balance at January 1, 2017	\$ 25,354	9,471	1,567	34,008	70,400
Additions	109	2,695	6,369	15,162	24,335
Disposals	(3,059)	(823)	-	(10,832)	(14,714)
Effect of exchange rate changes	-	-	(24)	(68)	(92)
Balance at December 31, 2017	\$ 22,404	11,343	7,912	38,270	79,929
Balance at January 1, 2016	\$ 30,986	10,173	5,787	21,794	68,740
Additions	3,297	2,921	562	14,259	21,039
Disposals	(8,929)	(3,623)	(4,785)	(2,066)	(19,403)
Effect of exchange rate changes	-	-	3	21	24
Balance at December 31, 2016	\$ 25,354	9,471	1,567	34,008	70,400
Depreciation:					
Balance at January 1, 2017	\$ 21,496	5,931	680	18,419	46,526
Depreciation	3,434	2,019	1,441	7,231	14,125
Disposals	(3,048)	(823)	-	(10,587)	(14,458)
Effect of exchange rate changes	-	-	(4)	(18)	(22)
Balance at December 31, 2017	\$ 21,882	7,127	2,117	15,045	46,171
Balance at January 1, 2016	\$ 20,820	8,174	4,987	17,419	51,400
Depreciation	9,605	1,380	479	3,070	14,534
Disposals	(8,929)	(3,623)	(4,785)	(2,066)	(19,403)
Effect of exchange rate changes	-	-	(1)	(4)	(5)
Balance at December 31, 2016	\$ 21,496	5,931	680	18,419	46,526
Carrying amounts:					
Balance at December 31, 2017	\$ 522	4,216	5,795	23,225	33,758
Balance at December 31, 2016	\$ 3,858	3,540	887	15,589	23,874

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(g) Intangible assets

	<u>Goodwill</u>	<u>Patent</u>	<u>Technology</u>	<u>Computer software</u>	<u>Total</u>
Costs:					
Balance at January 1, 2017	\$ 106,827	25,714	84,726	9,352	226,619
Additions	-	-	-	5,521	5,521
Balance at December 31, 2017	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>14,873</u>	<u>232,140</u>
Balance at January 1, 2016	\$ 419,301	5,714	-	5,265	430,280
Additions	-	20,000	84,726	4,087	108,813
Impairment loss	(312,474)	-	-	-	(312,474)
Balance at December 31, 2016	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>9,352</u>	<u>226,619</u>
Accumulated amortization and impairment loss:					
Balance at January 1, 2017	\$ -	2,279	2,648	4,556	9,483
Amortization	-	7,023	10,591	4,402	22,016
Balance at December 31, 2017	<u>\$ -</u>	<u>9,302</u>	<u>13,239</u>	<u>8,958</u>	<u>31,499</u>
Balance at January 1, 2016	\$ 312,474	1,881	-	1,784	316,139
Amortization	-	398	2,648	2,772	5,818
Impairment loss	(312,474)	-	-	-	(312,474)
Balance at December 31, 2016	<u>\$ -</u>	<u>2,279</u>	<u>2,648</u>	<u>4,556</u>	<u>9,483</u>
Carrying amount:					
Balance at December 31, 2017	<u>\$ 106,827</u>	<u>16,412</u>	<u>71,487</u>	<u>5,915</u>	<u>200,641</u>
Balance at December 31, 2016	<u>\$ 106,827</u>	<u>23,435</u>	<u>82,078</u>	<u>4,796</u>	<u>217,136</u>

(i) Amortization

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

	<u>2017</u>	<u>2016</u>
Operating expenses	<u>\$ 22,016</u>	<u>5,818</u>

On August 9, 2016, technology acquired in a purchase transaction at US \$2,700 (equivalent to TW \$84,726) which had been approved by the board of directors, and the amortization is recognized on a straight-line basis over the estimated useful lives of 8 years.

(ii) Impairment test on goodwill

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Biometric authentication IC sensor and its application	<u>\$ 106,827</u>	<u>106,827</u>

The Group's goodwill has been tested for impairment at the end of annual reporting period, and the recoverable amount of a CGU was determined based on the value in use. As of December 31, 2017 and 2016, no impairment loss was recognized for the biometric authentication IC sensor and its application based on the tested result.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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The key assumptions in assessing the value in use were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rates (before tax)	13.10 %	11.33 %
Revenue growth rates	5%~48%	5%~173%

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

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

(h) Short-term borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Secured bank loans	<u>\$ 280,519</u>	<u>252,693</u>
Unused credit facilities	<u>\$ 1,134,201</u>	<u>823,327</u>
Interest rate	<u>1.52%~2.73%</u>	<u>1.51%~2.73%</u>

Refer to Note 8 for details on related assets pledged as collateral for secured loans.

(i) Operating lease

Non-cancellable operating lease rentals payable were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than one year	\$ 33,049	18,560
Between one year and five years	108,425	12,248
More than five years	<u>5,619</u>	<u>-</u>
	<u>\$ 147,093</u>	<u>30,808</u>

The Group leases several office space, warehouses and equipment under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the leases. Lease payments are paid based on the terms of the lease contracts. For the years ended December 31, 2017 and 2016, rental expenses recognized in profit or loss in respect of operating leases were \$22,660 and \$15,213 respectively.

(j) 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.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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For the years ended December 31, 2017 and 2016, the Group recognized the pension expenses of \$13,352 and \$9,561, respectively, in relation to the defined contribution plans.

(k) **Income taxes**

(i) **Income tax expense**

	<u>2017</u>	<u>2016</u>
Current income tax expense	\$ 139,466	44,726
Deferred tax benefit		
Origination and reversal of temporary differences	(26,434)	(14,717)
Changes in tax losses	29,663	14,717
	<u>3,229</u>	<u>-</u>
Income tax expense	\$ 142,695	44,726

In 2017 and 2016, there were no income tax expense recognized in other comprehensive income.

Reconciliation between the expected income tax expense calculated based on the Company's statutory tax rate and the actual income tax expense reported in the consolidated statements of comprehensive income for 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Income before income tax	\$ 735,886	158,752
Income tax using the Company's statutory tax rate of 17%	\$ 125,101	26,988
Income tax credit	(6,222)	-
Change in unrecognized temporary differences	3,691	5,861
Withholding tax in foreign jurisdiction	4,632	43,103
Recognition of previously unrecognized tax losses	(1,266)	(32,946)
Undistributed earnings additional tax at 10%	10,262	-
Others	6,497	1,720
	<u>\$ 142,695</u>	<u>44,726</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

As of December 31, 2017 and 2016, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax assets as the Group has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Losses in foreign subsidiaries	\$ 129,971	128,080
Tax losses	-	1,266
Deductible temporary differences-Technology	<u>2,250</u>	<u>450</u>
	<u>\$ 132,221</u>	<u>129,796</u>

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2017 and 2016 were as follows:

Deferred income tax assets:

	<u>Tax losses</u> <u>carryforwards</u>	<u>Inventory</u> <u>provisions</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2017	\$ 29,663	19,645	5,896	55,204
Recognized in profit or loss	<u>(29,663)</u>	<u>12,161</u>	<u>12,988</u>	<u>(4,514)</u>
Balance at December 31, 2017	<u>\$ 31,806</u>	<u>18,884</u>	<u>50,690</u>	
Balance at January 1, 2016	\$ 44,380	5,618	3,921	53,919
Recognized in profit or loss	<u>(14,717)</u>	<u>14,027</u>	<u>1,975</u>	<u>1,285</u>
Balance at December 31, 2016	<u>\$ 29,663</u>	<u>19,645</u>	<u>5,896</u>	<u>55,204</u>

Deferred income tax liabilities:

	<u>Unrealized</u> <u>foreign</u> <u>currency</u> <u>exchange gain</u>
Balance at January 1, 2017	\$ 1,285
Recognized in profit or loss	<u>(1,285)</u>
Balance at December 31, 2017	<u>\$ -</u>
Balance at January 1, 2016	\$ -
Recognized in profit or loss	<u>1,285</u>
Balance at December 31, 2016	<u>\$ 1,285</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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- (iii) The Company's income tax returns for all fiscal years through 2015 were examined and approved by the R.O.C. income tax authorities.
- (iv) Information about the integrated income tax system:

	December 31, 2017	December 31, 2016
Unappropriated earnings earned commencing from January 1, 1998	(Note)	\$ <u>114,026</u>
Balance of imputation credit account	(Note)	\$ <u>17</u>
	2017	2016 (actual)
Creditable ratio for distribution of earnings to R.O.C. residents	(Note)	<u>0.01%</u>

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system

- (l) Capital and other equity
- (i) Common stock

As of December 31, 2017 and 2016, the Company's authorized shares of common stock, at \$10 par value per share, consisted of 100,000 thousand shares, of which 70,491 thousand shares and 68,839 thousand shares, respectively, were issued and outstanding.

The movements in outstanding shares of common stock were as follows (in thousands of shares):

	Ordinary Shares	
	2017	2016
Balance at January 1	68,839	68,469
Exercise of employee stock options	1,080	370
Restricted stock vested	117	-
Balance at December 31	70,036	68,839

As of December 31, 2017 and 2016, the related registration process had been completed except for 442 thousand shares and 718 thousand shares for issuance of new shares for employee stock options, which were classified as common stock subscribed, respectively.

On December 4, 2017, the Board of Directors approved a resolution to issue 572 thousand shares of restricted stock to its employees with December 5, 2017 as the effective date of capital increase. The related registration process had been completed.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(ii) Capital surplus

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Paid-in capital in excess of par value	\$ 660,247	602,417
Compensation cost of employee stock options	155,201	140,208
Restricted stock issued to employees	<u>126,590</u>	<u>-</u>
	<u>\$ 942,038</u>	<u>742,625</u>

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

The paid-in capital in excess of par value had been approved to offset the accumulated deficits of \$89,590, by the shareholders in the meetings held on June 28, 2016.

(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.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

On June 22, 2017, the Company's shareholders resolved not to distribute any dividend, in view of the Company's operation and capital requirement.

(iv) Other equity

	Exchange differences on translation of foreign operations	Deferred compensation cost arising from issuance of restricted stock
Balance at January 1, 2017	\$ 5,846	-
Foreign exchange differences arising from translation of foreign operations	(2,608)	-
Deferred compensation cost	-	(97,734)
Balance at December 31, 2017	<u>\$ 3,238</u>	<u>(97,734)</u>
Balance at January 1, 2016	\$ 5,165	-
Foreign exchange differences arising from translation of foreign operations	681	-
Balance at December 31, 2016	<u>\$ 5,846</u>	<u>-</u>

(m) Share-based payment

- (i) A summary of the Company's stock option plans and related information for the years ended December 31, 2017 and 2016, is as follows:

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

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

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

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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The Group adopted the binomial option pricing model to calculate the fair value of the stock options at the grant date, and the assumptions adopted in the valuation model were as follows (Amounts in New Taiwan dollars/share):

	<u>2015</u>	<u>2014</u>	
Grant date	2015.11.03	2014.12.18	2014.3.14
Fair value at grant date	\$54.458	36.486	24.27
Binominal parameters:			
Share price at grant date	\$129.5	98.69	33.20
Exercise price	\$127.18	98.20	10.00
Expected volatility (%)	49.48~49.93	44.70~44.77	47.92~47.96
Expected life	4.0~4.1 years	3.9~4.0 years	3.7~3.8 years
Expected dividend field rate (%)	-	-	-
Risk-free interest rate (%)	0.76	1.06~1.08	1.01~1.02

Expected volatility is based on the weighted average of historical volatility, and it is adjusted when there is additional market information on the volatility. The expected life is in accordance with the stock option plans. The risk-free interest rates are determined based on the yield to maturity of zero-coupon government bonds with similar maturity dates.

Movements in number of shares of employee stock option plans (Amounts in New Taiwan dollars):

	<u>2017</u>		<u>2016</u>	
	<u>Weighted- average exercise price</u>	<u>Number of shares</u>	<u>Weighted- average exercise price</u>	<u>Number of shares</u>
Outstanding, beginning of year	\$ 95.80	1,511,000	79.34	2,670,000
Granted	-	-	-	-
Exercised	82.02	(803,000)	56.05	(1,088,000)
Forfeited	98.20	(65,000)	86.10	(71,000)
Outstanding, end of year	112.76	<u>643,000</u>	95.80	<u>1,511,000</u>
Exercisable, end of year	106.43	<u>447,000</u>	98.20	<u>190,500</u>

Information on outstanding shares of stock option plans for each reporting date was as follows:

<u>December 31, 2017</u>				
<u>Year of grant</u>	<u>Number outstanding</u>	<u>Weighted-average remaining contractual years</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable</u>
2014/12	320,000	1.96	\$ 98.20	320,000
2015	323,000	2.84	127.18	127,000
	<u>643,000</u>			<u>447,000</u>

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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December 31, 2016				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/03	170,000	2.2	\$ 10.00	-
2014/12	949,000	2.96	98.20	190,500
2015	392,000	3.84	127.18	-
	1,511,000			190,500

(ii) Restricted stock

During the meeting on June 22, 2017, the Company's shareholders approved a resolution to issue 650,000 shares of restricted stock to full-time employees who conformed to certain requirements. The Company has filed an effective registration with the Securities and Futures Bureau of the FSC for the issuance. On December 4, 2017, the Company issued 572,000 shares of restricted stock to its employees, and the effective date of capital increase was set on December 5, 2017. The employees who were granted restricted stocks are entitled to purchase them without any exercise price. The restricted stock received by the employees shall be deposited and held in an escrow account and could not be sold, pledged, transferred, gifted, or disposed of in any other forms during the vesting period; nevertheless, the rights of a shareholder (such as voting and election at the shareholders' meeting) are the same as the rights of the Company's shareholders but are executed by the custodian. During the vesting period, the restricted shares of stock are entitled to any earnings distribution. The Company will recall and retire those shares from employees who do not meet the vesting conditions.

1) 2017 plan of issuance of restricted stock

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

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

	2017
Balance at January 1	-
Restricted stock issued	572
Balance at December 31	572
Accumulated vested shares	(117)
Unvested shares	455

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) Expenses resulted from share-based payments

For the years ended December 31, 2017 and 2016, the Group recognized the expenses of \$49,569 and \$32,455 respectively, in relation to the share-based payments, which included the compensation cost related to employee stock options and issuance of restricted stock to employee.

- (n) Earnings per share ("EPS")

- (i) Basic earnings per share

	2017	2016
Net income attributable to the shareholders of the Company	\$ 593,191	114,026
Weighted-average number of ordinary shares outstanding (in thousands)	69,814	68,804
Basic earnings per share (in New Taiwan dollars)	\$ 8.50	1.66

- (ii) Diluted earnings per share

	2017	2016
Net income attributable to the shareholders of the Company	\$ 593,191	114,026
Weighted-average number of ordinary shares outstanding (in thousands)	69,814	68,804
Effect of dilutive potential common stock:		
Stock options	575	986
Employees compensation	179	32
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	70,568	69,822
Diluted earnings per share (in New Taiwan dollars)	\$ 8.41	1.63

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(o) Revenue

	<u>2017</u>	<u>2016</u>
Revenue from sale of goods and royalty revenue	\$ 4,728,540	1,667,689
Revenue from service provided	<u>3,368</u>	<u>5,579</u>
	<u><u>\$ 4,731,908</u></u>	<u><u>1,673,268</u></u>

(p) Remuneration to employees and directors

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

For the years ended December 31, 2017 and 2016, the Company accrued its remuneration to employees amounting to \$38,934 and \$8,375, respectively, and the Company accrued its remuneration to directors amounting to \$7,787 and \$1,675, respectively, which were calculated based on the net profits before tax of each period (excluding the remuneration to employees and directors), multiplied by the distribution ratio of remuneration to employee and directors under the Company's articles of incorporation, and recognized them as operating expenses. The above mentioned remuneration to employees and directors approved by the Board of Directors on March 5, 2018 and March 21, 2017, respectively, will be paid in cash. The differences of \$65 between the aforementioned accrued remuneration and the amount approved by the Board of Directors on March 21, 2017, shall be accounted as changes in accounting estimates and charged to profit or loss in 2017. The above mentioned estimated 2017 remuneration to employees and directors is the same as the amount approved by the Board of Directors on March 5, 2018. Related information would be available at the Market Observation Post System website.

(q) Non-operating income and loss

(i) Other income

	<u>2017</u>	<u>2016</u>
Interest income	\$ 15,477	5,282
Grants for research and development	1,880	7,320
Others	<u>4,866</u>	<u>8,118</u>
	<u><u>\$ 22,223</u></u>	<u><u>20,720</u></u>

(ii) Other gains and losses

	<u>2017</u>	<u>2016</u>
Foreign exchange gains (losses), net	\$ (52,815)	4,031
Gain on financial assets at fair value through profit or loss	71	-
Loss on disposal of property, plant and equipment	(243)	-
Others	<u>(787)</u>	<u>(426)</u>
	<u><u>\$ (53,774)</u></u>	<u><u>3,605</u></u>

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(iii) Finance costs

	2017	2016
Interest expense on bank loans	(9,206)	(1,592)

(r) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss	\$ 57,912	-
Loans and receivables:		
Cash and cash equivalents	1,153,711	859,795
Accounts receivable	729,289	407,697
Other financial assets – current	533,416	308,112
Refundable deposits	9,775	6,009
	2,426,191	1,581,613
Available-for-sale financial assets :		
Financial assets carried at cost	93,835	20,000
Total	\$ 2,577,938	1,601,613

2) Financial liabilities

	December 31, 2017	December 31, 2016
Financial liabilities measured at amortized cost:		
Short-term borrowings	\$ 280,519	252,693
Notes and accounts payable	642,598	468,119
Accrued expenses	169,217	108,534
	\$ 1,092,334	829,346

(ii) Information on fair value

1) Financial instruments not measured at fair value

The Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values. The financial assets carried at cost is an equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required.

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2) Financial instruments measured at fair value

	December 31, 2017				
	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Open-end mutual fund	\$ <u>57,912</u>	<u>57,912</u>	<u>-</u>	<u>-</u>	<u>57,912</u>

The fair value of financial assets at fair value through profit or loss is measured on a regularly recurring basis.

3) Fair value hierarchy

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).

There were no transfers between fair value levels for the twelve-month periods ended December 31, 2017.

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

(s) Financial risk management

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

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

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

(i) Credit risk

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

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

The Group has established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. As of December 31, 2017 and 2016, 85% and 87%, respectively, of accounts receivable were concentrated on three customers, thus, credit risk is significantly centralized.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of loan agreements. As of December 31, 2017 and 2016, the Group had unused credit facilities of \$1,134,201 and \$823,327, respectively.

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

	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>
December 31, 2017			
Short-term borrowings carrying floating interest rates	\$ 280,741	280,741	-
Notes and accounts payable	642,598	642,598	-
Accrued expenses	<u>169,217</u>	<u>169,217</u>	<u>-</u>
	<u>\$ 1,092,556</u>	<u>1,092,556</u>	<u>-</u>
December 31, 2016			
Short-term borrowings carrying floating interest rates	252,838	252,838	-
Notes and accounts payable	468,119	468,119	-
Accrued expenses	<u>108,534</u>	<u>108,534</u>	<u>-</u>
	<u>\$ 829,491</u>	<u>829,491</u>	<u>-</u>

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

(iii) Market risk

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

1) Foreign currency risk

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

a) Exposure to foreign currency risk

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

	December 31, 2017			December 31, 2016		
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)
<u>Financial assets</u>						
USD	\$ 73,652	29.76	2,191,884	36,414	32.25	1,174,363
<u>Financial liabilities</u>						
USD	34,763	29.76	1,034,547	22,477	32.25	724,900

b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of cash and cash equivalents, accounts receivables, and notes and accounts payable that are denominated in a currency other than the respective functional currencies of Group entities. As of December 31, 2017 and 2016, a 1% depreciation of the TWD against the USD would have increased the Group's income before tax for the years ended December 31, 2017 and 2016 by \$11,574, and \$4,495, respectively. This analysis assumes that all other variables remain constant and is performed on the same basis for the current and prior periods.

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c) 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:

	2017		2016	
	Foreign exchange gains (losses)	Exchange rate	Foreign exchange gains (losses)	Exchange rate
<u>Financial assets</u>				
USD:TWD	\$ (92,489)	29.76	(4,471)	32.25
<u>Financial liabilities</u>				
USD:TWD	37,726	29.76	8,127	32.25

2) Interest rate risk

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

If interest rates had been 100 basis points (1%) higher/lower with all other variables held constant, the pre-tax income/loss for the years ended December 31, 2017 and 2016 would have been \$2,805 and \$2,527, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

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

(t) Capital management

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

The Group monitors its capital through reviewing the liability-to-equity ratio periodically.

The Group's liability-to-equity ratio at the end of each reporting period was as follows:

	December 31, 2017	December 31, 2016
Total liabilities	\$ <u>1,363,586</u>	<u>934,988</u>
Total equity	\$ <u>2,264,082</u>	<u>1,558,070</u>
Liability-to-equity ratio	<u>60.23 %</u>	<u>60.01 %</u>

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7. Related-party transactions

(a) Significant related-party transactions

As of December 31, 2017 and 2016, the Group's credit facilities from financial institutions were guaranteed by the Group's chairman, Mr. Steve Ro.

(b) Compensation for key management personnel

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 74,448	39,135
Post-employment benefits	647	705
Share-based payments	<u>36,556</u>	<u>12,927</u>
	<u>\$ 111,651</u>	<u>52,767</u>

Refer to note 6(m) for information on share-based payment.

8. Pledged assets

<u>Assets</u>	<u>Pledged to secure</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Other financial assets-current (time deposits)	Deposit for purchase fulfillment	\$ 10,000	10,000
Other financial assets-current (time deposits)	Credit facilities	<u>89,280</u>	<u>50,310</u>
		<u>\$ 99,280</u>	<u>60,310</u>

9. Significant commitments and contingencies

(a) As of December 31, 2017 and 2016, the Group had issued promissory notes amounting to \$1,414,720 and \$1,005,250, respectively, as collaterals for obtaining credit facilities from financial institutions.

10. Significant loss from casualty: None.

11. Significant subsequent events

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return for the year 2018. This increase does not affect the amounts of the current or deferred income taxes recognized in 2017. However, this amendment will increase the Group's income tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences recognized on December 31, 2017, the deferred tax assets would increase by \$8,945.

On March 5, 2018, the Board of Directors approved a resolution for the Company to repurchased 1,410 thousand shares of its own common stock for the purpose of transferring to employees, and the prices for this repurchase ranged between \$119 to \$286 per share.

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12. Others

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

By item	By function	2017			2016		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:							
	Salaries	-	421,065	421,065	-	291,494	291,494
	Labor and health insurance	-	17,354	17,354	-	13,228	13,228
	Pension cost	-	13,352	13,352	-	9,561	9,561
	Others	-	23,759	23,759	-	10,502	10,502
	Depreciation	1,514	12,611	14,125	96	14,438	14,534
	Amortization	-	22,016	22,016	-	5,818	5,818

13. Additional disclosures

(a) Information on significant transactions:

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Nomura Global Short Duration Bond Fund	-	Financial assets at fair value through profit or loss	88	27,893	-	27,893	
The Company	Nomura Asia Pacific Bond Fund	-	Financial assets at fair value through profit or loss	97	30,019	-	30,019	
The Company	Gingy Technology Inc.	-	Financial assets carried at cost	859	23,590	4.64 %	-	
The Company	THEIA LIMITED	-	Financial assets carried at cost	100,000	30,245	10.00 %	-	
The Company	Integrated Digital Technologies, Inc.	-	Financial assets carried at cost	4,000	40,000	13.96 %	-	

- (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital: None.
- (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: None.

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(viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: None.

(ix) Information about derivative instrument transactions: None.

(i) Business relationships and significant intercompany transactions: None.

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the years ended December 31, 2017 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2017			Maximum Ownership during 2017		Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				December 31, 2017	December 31, 2016	Shares (In thousands)	Percentage of Ownership	Carrying Value	Shares (In thousands)	Percentage of Ownership			
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,204	25,848	100.00 %	(102)	(102)	
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	83,213	67,846	5,840	100.00 %	9,287	5,840	100.00 %	(11,521)	(11,521)	
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	12,955	1,000	100.00 %	322	322	
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	2,923	-	10	100.00 %	2,996	10	100.00 %	182	182	

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

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

14. Segment information

(a) General 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. In 2017 and 2016, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.

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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(b) Product information

Revenues from external customers are detailed below:

<u>Products and services</u>	<u>2017</u>	<u>2016</u>
Biometric authentication IC sensor and its application	\$ 4,724,571	1,662,961
Data security and its application	3,969	4,728
Non-recurring engineering service revenue	<u>3,368</u>	<u>5,579</u>
	<u>\$ 4,731,908</u>	<u>1,673,268</u>

(c) Geographic information

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

<u>Region</u>	<u>2017</u>	<u>2016</u>
Revenues from external customers are detailed below:		
Asia	\$ 4,699,941	1,640,300
Taiwan	<u>31,967</u>	<u>32,968</u>
	<u>\$ 4,731,908</u>	<u>1,673,268</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2017</u>	<u>2016</u>
Non-current assets:		
Taiwan	\$ 233,752	239,841
Others	<u>647</u>	<u>1,169</u>
	<u>\$ 234,399</u>	<u>241,010</u>

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

(d) Major customer information

<u>Customer</u>	<u>2017</u>	<u>2016</u>
Customer A	\$ 2,073,638	1,174,868
Customer B	880,487	51,180
Customer C	<u>759,147</u>	<u>84,287</u>
	<u>\$ 3,713,272</u>	<u>1,310,335</u>