

(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)**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Egis Technology Inc. as of and for the year ended December 31, 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



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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 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	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
	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)

	2017	2016
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	-
	104,171	49,117
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	(234,883)	(300,776)
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	592,793	(131,980)

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.

(Continued)

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

(Continued)

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.

(Continued)

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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- 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
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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 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.

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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.

(Continued)

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.

(Continued)

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
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(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
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(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.

(Continued)

EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(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
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(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 there 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
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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>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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:

	<u>Individually assessed for impairment</u>	<u>Collectively assessed for impairment</u>	<u>Total</u>
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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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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(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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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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The key assumptions in assessing the value in use were as follows:

	December 31, 2017	December 31, 2016
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

	December 31, 2017	December 31, 2016
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:

	December 31, 2017	December 31, 2016
Less than one year	\$ 33,049	18,560
Between one year and five years	108,425	12,248
More than five years	5,619	-
	<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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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	\$ <u>139,466</u>	<u>44,726</u>
Deferred tax benefit		
Origination and reversal of temporary differences	(26,434)	(14,717)
Changes in tax losses	<u>29,663</u>	<u>14,717</u>
	<u>3,229</u>	<u>-</u>
Income tax expense	<u>\$ <u>142,695</u></u>	<u>44,726</u>

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	\$ <u>735,886</u>	<u>158,752</u>
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	<u>6,497</u>	<u>1,720</u>
	<u>\$ <u>142,695</u></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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(ii) Capital surplus

	December 31, 2017	December 31, 2016
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	126,590	-
	\$ 942,038	742,625

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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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:

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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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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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

(Continued)

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

(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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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, 2017</u>	<u>December 31, 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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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12. Others

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

By item	By function	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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EGIS TECHNOLOGY INC. AND ITS SUBSIDIARIES
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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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(b) Product information

Revenues from external customers are detailed below:

Products and services	2017	2016
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.

Region	2017	2016
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>
Region	December 31, 2017	December 31, 2016
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

Customer	2017	2016
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>