Stock Code: 6462

Egis Technology Inc.

2018 Annual Report

Prepared by Egis Technology Inc.
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1. Company's Spokesperson

Name: Yi-Pin Lee

Position: Senior Deputy General Manager

Telephone: (02) 2658-9768

E-mail: ir@egistec.com

2. Acting Spokesperson

Name: George Chang

Position: Chief Financial Officer

Telephone: (02) 2658-9768

E-mail: ir@egistec.com

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

Headquarters: 2F, No. 360 Ruiguang Road, Neihu District, Taipei City

Telephone: (02) 2658-9768

Addresses and Contact Numbers of Branch Companies: Nil

Addresses and Contact Numbers of Factories: Nil

4. Stock Transfer Agencies

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

Address: B1, No. 210, Section 3, Chengde Road, Taipei City

Website: http://www.yuanta.com.tw

Telephone: (02) 2586-5859

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

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

Name of Accounting Firm: KPMG Taiwan

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

Website: http://www.kpmg.com.tw

Telephone: (02) 8101-6666

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

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

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I. Report to Shareholders

Dear Shareholders,

The 2018 Business Achievements and Business Plan are provided as follows:

1. 2018 Annual Business Achievements

(1) Implementation of 2018 Annual Business Plan

The consolidated operating revenue of the Company for 2018 amounted to NTD 5,909,333,000, representing an increase of NTD 1,177,425,000 from 2017, and a growth rate of 25%; the net profit before tax is NTD 848,096,000 and net profit after tax is NTD 670,791,000, and the consolidated net profit for the current period is NTD 617,511,000.

Unit: NTD ’000

Item	2017	2018
Operating revenue	4,731,908	5,909,333
Gross operating profit	1,822,175	2,083,902
Net operating profit (loss)	776,643	726,177
Non-operating revenue and expenditure	(40,757)	121,919
Net profit (loss) before tax	735,886	848,096
Net profit (loss) after tax	593,191	670,791
Total comprehensive income for the current period	590,583	617,511
Basic earnings per share (NTD)	8.50	9.62

(2) Status of Budget Implementation

The financial forecast for 2018 was not disclosed by the Company.

(3) Analysis of Financial Revenue and Expenditure and Profitability

Item		2017	2018
Financial Structure	Liabilities to assets ratio (%)	37.59	44.48
	Permanent capital to property, plant and equipment ratio (%)	6,706.80	6,068.32
Solvency	Current ratio (%)	237.53	195.81
	Quick ratio (%)	181.46	162.73
Profitability	Return on assets (%)	19.63	17.10
	Return on equity (%)	31.04	28.81
	Pure rate of return (%)	12.54	11.35
	Earnings per share (NTD)	8.50	9.62

(4) Status of Research and Development

Item	Research and Development Plan	Description of Plan
Algorithm	AI matching algorithm	The fingerprint matching algorithm can extract a large number of fingerprint feature points on the optical fingerprint image to optimize recognition efficiency and reliability performance.
Hardware Products	ET5XX series	This capacitive fingerprint recognition chip series, having an optimized cost structure, can be mounted under a cover of 100 um to 150 um thickness.
	ET6XX series	This capacitive fingerprint recognition chip series, having optimized sensing sensitivity, can be mounted under a cover of 200 um to 300 um thickness.
	ET7XX series	In response to the latest trend of full-screen mobile phones, the under-screen fingerprint recognition solution is provided using this optical fingerprint recognition chip series which can be mounted under a glass cover of 700 um to 1,400 um thickness.
	Grip Sensor	To detect if the user's hand holding the mobile phone
	3D Modeling	ToF (time of flight) Depth Map Sensing Technology.

2. Overview of 2019 Annual Business Plan

(1) Operational Strategy

In response to the gradual maturity and growing application of biometric recognition technology, the Company is committed to boosting the technological advancement of capacitive fingerprinting and promoting the multiple applications of fingerprint chips, further investing in optical fingerprint recognition and other technological research and development to maintain the Company's technological leadership in the field of biometric recognition. Meanwhile we are committed to expanding the emerging applications of biometric recognition in various industries, including smart phones, mobile devices, financial payments, automotive electronics, etc. and making them the main business direction of the Company, with the goal of expanding the market landscape and spearheading entry into the market.

(2) Expected Sales Volume and its Basis

The Company's total revenue of 2018 saw a growth rate of multiples, setting a new record. In addition to the continuous growth of existing customers in 2019 and the expansion of the fingerprint chip application models with the flagship model included, the Company has also made progress with new customers of major mobile phone brands in Mainland China, with successive shipments of products to Mainland China this year. Therefore, it is expected that the Company's operations this year will likely grow in double digits, with continued expansion of its global market share of fingerprint recognition chip products.

(3) Significant Production and Sales Policies

In response to the continuous increase in demands by customers from different markets, strengthening the management and control of cost and the management of inventory are important for production and sales management this year. Therefore, the estimation and guarantee of chip fabrication plant capacity, as well as the confirmation of production and sale time shall continue to be improved. In addition, with regard to the management and control of the overall supply chain, the certification and introduction of second-party manufacturers and new suppliers will also continue uninterruptedly to ensure continuous improvement in the quality of products supplied, stable and flawless supply sources, while optimizing the cost structure and strengthening market competitiveness.

3. Future Development Strategy of the Company

(1) Short-Term

1. In the area of hardware development: Strengthen cooperation with customers. At the same time, the integration of software resources and engineering test field support should also comply with customer requirements. Therefore, continuous improvement is required in the recruitment and development of new engineering personnel.
2. In the area of process improvement: Work closely with wafer fabrication plants

to achieve the objective of lowering cost by adopting more efficient methods.

3. In the area of software development: Strengthen the reusable software architecture and conduct a cycling verification of the introduction of test environment

(2) Long-Term

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

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

Since Apple discontinued the use of fingerprint recognition in favor of facial recognition on iPhone X, it has caused doubts about the application of fingerprint recognition in smart phones. Some Chinese mobile phone manufacturers have also used this technology in several models, but even the iPhone X didn't sell well. Fingerprint recognition has become the basic configuration for medium- and high-end smart phones. It is estimated that by 2020, the shipment of smart phones equipped with fingerprint sensors will reach 1.25 billion. (Source: DIGITIMES Research)

In addition to smartphones, fingerprint recognition is a huge opportunity for multiple applications in mobile devices, mobile payments, automotive electronics and financial smart cards and so on. The Company has been dedicated to fingerprint recognition for years. Aside from designing fingerprint recognition chips, it has self-developed algorithms and more than 100 patents in fingerprint recognition. It has also become a supplier for the vehicle industry.

In response to the development trend of the full screen, the fingerprint recognition solutions under the screen can increase the proportion of screens, and all manufacturers are eager to invest in R&D. Based on the long-term accumulated fingerprint recognition capabilities, the Company recruited new R&D teams and technology partners to develop optical fingerprint recognition chips and have made significant progress. At the same time, the Company has cooperated with customers to import fingerprint recognition solutions under the screen to customers' products.

The Company has also launched the R&D of sensing technology including 3D Modeling based on Time of Flight (ToF), while at the same time developing a more cost-effective wafer solution than the existing technology in the market, which will be more favorable for customers to introduce product applications and accelerate the speed to market.

The product line of the biometric recognition chip of the Company will continue to follow evolution of manufacturing processes and move towards high-resolution, high-recognition rate and multi-specification. It will develop new applications and forms, and expand the field of applications in meeting customer demands, thus maintaining the long-term industrial competitiveness of the Company. The future trend of hardware design will make further efforts towards environment protection in the areas of saving energy and reducing carbon and the Company will work with upstream and downstream manufacturers to develop products that match this goal, while fulfilling its corporate social responsibility.

Chairman: LO, SEN CHOU

II. Company Profile

1. Date of Establishment: December 26, 2007

2. Company History

December 2007	The Company was founded as Taxxtron International Corporation, with registered capital of NTD 1,000,000 and paid-in capital of NTD 1,000,000.
January 2008	The Company conducted capital injection of NTD 128,000,000 in cash and its paid-in capital after the capital injection was NTD 129,000,000.
February 2008	The Company acquired the main business and assets of Ching Hu Technology Corporation that mainly engaged in the development and sales of fingerprint recognition application software.
April 2008	The Company was merged with Egis International Inc. by absorption, with the merger record date as April 01, 2008. The Company issued new shares of NTD 51,000,000 for capital injection upon the merger, and its paid-in capital after the capital injection was NTD 180,000,000. It was renamed as Egis Technology Inc.
May 2008	The Company acquired Egis Inc. and its subsidiaries; Egis Inc. and its subsidiaries mainly engaged in the development and sales of security software. The Company conducted capital injection of NTD 180,500,000 in cash and its paid-in capital after the capital injection was NTD 360,500,000. The Company conducted capital reduction of NTD 164,000,000 and its paid-in capital after the capital reduction was NTD 196,500,000. The Company conducted capital injection of NTD 164,000,000 through transfer from capital reserves, and its paid-in capital after the capital injection was NTD 360,500,000.
July 2008	The Company conducted capital injection of NTD 12,000,000 in cash and its paid-in capital after the capital injection was NTD 372,500,000. The Company acquired LighTuning Technology Inc., with the merger record date set as July 19, 2008. LighTuning Technology Inc. mainly engaged in the development and sales of biometric hardware. The Company issued new shares of NTD 123,799,000 for capital injection upon the merger, and the paid-in capital after the capital injection was NTD 496,299,000.

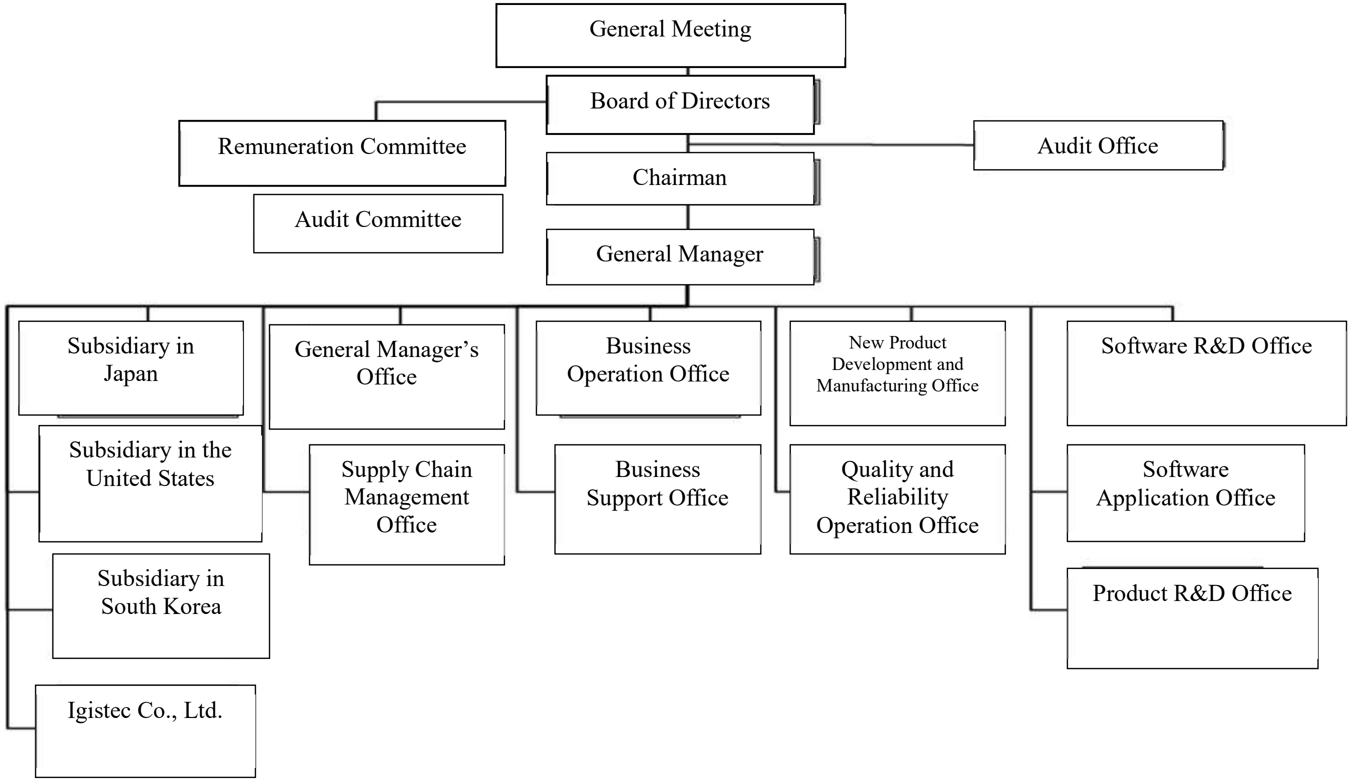
August 2009	A subsidiary company, Egis Technology (Japan) Inc., was established in Japan.
July 2010	Employees exercised stock warrants of NTD 384,000 and the paid-in capital after the capital injection was NTD 496,683,000.
December 2013	Employees exercised stock warrants of NTD 25,810,000 and the paid-in capital after the capital injection was NTD 522,493,000.
February 2014	The Company conducted capital injection of NTD 88,000,000 in cash and its paid-in capital after the capital injection was NTD 610,493,000.
April 2014	Employees exercised stock warrants of NTD 9,950,000 and the paid-in capital after the capital injection was NTD 620,443,000.
May 2014	The Company declared the public offering of shares and employee stock warrants.
June 2014	The Taipei Exchange approved the listing on the emerging stock market.
August 2014	Employees exercised stock warrants of NTD200,000 and the paid-in capital after the capital injection was NTD 620,643,000.
December 2014	Employees exercised stock warrants of NTD 850,000 and the paid-in capital after the capital injection was NTD 621,493,000.
March 2015	Employees exercised stock warrants of NTD 50,000 and the paid-in capital after the capital injection was NTD 621,543,000.
April 2015	The "Opinions Regarding the Successful Development and Marketability of Products or Technologies Under Application by Technology Enterprises" was issued by the Industrial Development Bureau, Ministry of Economic Affairs and the letter issued by the Taipei Exchange was obtained.
July 2015	The Company was appointed as the board member of FIDO (Fast IDentity Online) Alliance and attended the World Action Conference (Shanghai) in the name of FIDO Alliance.
September 2015	Employees exercised stock warrants of NTD 240,000 and the paid-in capital after the capital injection was NTD 621,783,000.
December 2015	The Company conducted capital injection of NTD 62,910,000 in cash and its paid-in capital after the capital injection was NTD 684,693,000. The Company was officially listed over-the-counter on Taipei Exchange.
January 2016	The Company conducted capital injection of NTD 62,910,000 in cash and its paid-in capital after the capital injection was NTD 684,693,000.
April 2016	Employees exercised stock warrants of NTD 2,950,000 and the paid-in capital after the capital injection was NTD 687,643,000.
August 2016	Employees exercised stock warrants of NTD 750,000 and the paid-in capital after the capital injection was NTD 688,393,000.
August 2016	A subsidiary company, Egis TEC USA Inc., was established in the U.S.

March 2017	Employees exercised stock warrants of NTD 8,385,000 and the paid-in capital after the capital injection was NTD 696,778,000.
August 2017	Employees exercised stock warrants of NTD 1,700,000 and the paid-in capital after the capital injection was NTD 698,478,000.
November 2017	A subsidiary company, Egis Technology Korea Inc., was established in South Korea.
December 2017	The Company ranked No.9 in Asia-Pacific area and No.1 in Taiwan among Top 500 high-tech, high-growth companies of Asia-Pacific Deloitte, according to the evaluation of Deloitte Accounting Firm.
December 2017	Employees exercised stock warrants of NTD 710,000. The Company issued new restricted employee shares of NTD 5,720,000 and the paid-in capital after the capital injection was NTD 704,908,000.
March 2018	Employees exercised stock warrants of NTD 489,500 and the paid-in capital after the capital injection was NTD 709,803,000.
September 2018	The Company collected new restricted employee shares of NTD 60,000 and its paid-in capital after the capital reduction was NTD 709,743,000.
December 2018	The Company ranked No.6 in Taiwan among Top 500 high-tech, high-growth companies in 2018 according to the evaluation of Deloitte Accounting Firm.
January 2019	A subsidiary company, Igistec Co., Ltd. was established.
March 2019	Employees exercised stock warrants of NTD 930,000, the Company collected the new restricted employee shares of NTD 30,000 and the paid-in capital after the capital reduction was NTD 710,643,000.

III. Corporate Governance Report

1. Organization System

(1) Organizational Structure of the Company (March 31, 2019)



(2) Business Operations of Major Departments

Department	Job Description
Audit Office	Audit, assess, study and formulate the internal controls of the Company and provide areas for improvement and suggestions, so as to enhance business efficiency and the effective implementation of internal controls.
General Manager's Office	Be responsible for the overall operation planning and execution of the Company. Develop and implement the medium and long-term business strategy of the Company. Establish, supervise and manage organizational operations and systems of various departments. Be directly responsible for the Board of Directors.
Subsidiary in Japan	Business development in the Japanese region.
Subsidiary in the United States	Research and development of IC and hardware.
Subsidiary in South Korea	Customer service, business promotion and technical support in South Korea.
Igistec Co., Ltd.	IC design, research and development, testing and sales of optical fingerprint identification sensing chips.
General Management Office	Responsible for the integration of all financial, accounting, information, legal and patent matters, general affairs and human resources of the Company.
Supply Chain Management Office	Arrangement of mass production capacity, management of delivery schedule, production-marketing coordination, material planning and production cost control. Outsourcing production management and warehouse control.
Business Operations Office	Market development, formulation of strategies, customer relationship management and development of new products.
Business Support Office	Support and integrate production-marketing coordination, follow-up on issues reflected by customers and improve customer satisfaction.
New Product Development and Manufacturing Office	Carry out internal planning/management/integration/schedule control, deal with customers and meet customers' needs.
Quality and Reliability Operations Office	Verification and guarantee of product quality. Assist in product development related reliability experiments and failure analysis. Outsourcing manufacturer evaluation, quality supervision and exception handling. Handle customer complaint and provide customer problem analysis report. Document control. Maintain and promote the quality system/activities.
Software Application Office	Development of SDK. Application of SDK to products specified by customers in accordance with customer requirements.
Software Research and Development Office	Development of algorithms. Development of drivers. Development of cloud servers. Drafting of technical documents.

Department	Job Description
Product Research and Development Office	Research and development of IC and hardware. Development, introduction and process improvement of new technology. Improve engineering capabilities and solve product-related technical problems.

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

(1) Information about Directors

1. Name, Work (Educational) Experience, Shareholding and Nature of the Holding Shares

April 30, 2019 Unit: Shares; %

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Chairman	LO, SEN CHOU	Male	Republic of China	97.08.05	06/22/2017	3	2,920,000	4.18	3,546,262	4.98	-	-	5,360,426	7.53	Founder and CEO of Intervideo Inc. in the United States Bachelor of Computer Science, Soochow University California State University Chico MSCS, USA National University MBA, San Jose, USA	Chairman of IvyRock Asset Management Consulting Co., Ltd. Director of HEADWAY CAPITAL LIMITED Director of ORIENTAL GOLD HOLDINGS LIMITED Juristic Person Director of Tyrafos Technologies Co., Ltd. Director of Kiwi Technology Inc.	Director	RO, SHIH-HAO	Father and son

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Independent Director of Acer Cyber Security Inc. Director of AISTORM, INC. Juristic Person Director of Igistec Co., Ltd.			
Director	SHIH, CHEN-JUNG	Male	Republic of China	103.10.17	06/22/2017	3	-	-	-	-	-	-	-	-	Honorary Doctor of International Law, Thunderbird International Management Institute Honorary Fellowship of the University of Wales Honorary Doctor of Science and Technology, Hong Kong Polytechnic University Honorary Doctor of Engineering, National Chiao Tung University Master of Electronic Engineering, National Chiao Tung University Founder and Chairman of Acer Group	Director of Acer Inc., Limited Independent Director of Taiwan Semiconductor Manufacturing Company, Limited Director of Nan Shan Life Insurance Co., Ltd. Juristic Person Director of Hung Jung Investment Co., Ltd. Juristic Person Director of iD Innovation Inc. Chairman of Dragon Investment	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Fund I Co., Ltd. Director of DIGITIMES Inc. Director of Taiwan Public Television Service Foundation Chairman of Stans Foundation Director of Jung Hsin Management Consulting Corporation Director of Ping Yu Corporation Director of Chinese Television System Corporation President of Cloud Gate Culture and Arts Foundation Director of the NSFG Foundation Chairman of Chew's Culture Foundation			
Director	YU, MING-	Male	Republic of China	103.10.17	06/22/2017	3	-	-	-	-	-	-	-	-	Master of Public Administration, National	Juristic Person Director of Kaiyu	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
	TO														Chengchi University Master of Business Administration, Wharton School of the University of Pennsylvania Financial Manager of Taiwan Semiconductor Manufacturing Company, Limited Chief Financial Officer and Spokesperson of MediaTek Inc. Chief Financial Officer of Beijing Xiaomi Technology Co., Ltd.	Consulting Co. Ltd. Independent Director of eMemory Technology Inc. Independent director of Acer Cyber Security Inc.			
Director	HEADWAY CAPITAL LIMITED	Not applicable	British Virgin Islands	103.10.17	06/22/2017	3	2,700,000	3.87	2,700,000	3.79	-	-	-	-	-	-	-	-	-
	Representative LIN, GONG-YI	Male	Republic of China	103.10.17	06/22/2017	3	425,000	0.61	90,000	0.13	-	-	-	-	Institute of Electronics, National Chiao Tung University Director of Chip Design Consultant Group of Synopsys for Asia Region	Chief Operating Officer and Chief Technology Officer of the Company Juristic Person Director of Evershine BPO	-	-	-

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
																Service Corporation Juristic Person Director of Integrated Digital Technologies, Inc. Juristic Person Director of Tyrafos Technologies Co., Ltd. Director of AISTORM, INC. Director of Sirius Wireless Pte Ltd.			

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
	Representative LEE, YI-PIN	Male	Republic of China	106.6.22	06/22/2017	3	-	-	111,000	0.16	-	-	-	-	Central Missouri State University MBA Department of Economics, Chung Hsing University Chief Financial Officer of Primax Electronics Ltd. Chief Financial Officer of DaStrong Corporation Chief Financial Officer of Central Corporation Chief Financial Officer of TSTC Manager of Acer Inc.	Sr. Deputy General Manager of the General Management Office of the Company Supervisor of Igistec Co., Ltd. Director of Sirius Wireless Pte Ltd. Juristic Person Director of Gingy Technology Inc.	-	-	-
Director	RO, SHIH-HAO	Male	United States	106.6.22	06/22/2017	3	30,000	0.04	98,000	0.14					University of California, Riverside Business Manager and Vice General Manager of Egis Technology Inc. SBI & Capital 22 Mizuho Securities Asia Ltd	General Manager of the Company	Chairman	LO, SEN CHOU	Father and son

Position	Name	Gender	Nationality or Place of Registration	Initial Date of Appointment	Date of Appointment	Term of Office	Shareholding upon Appointment		Number of Shares Currently Held		Number of Shares Currently Held by Spouse and Underage Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Assumed in the Company and Other Companies	Other Managers, Directors or Supervisors with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
							Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Independent Director	WENG, MING-JENG	Male	Republic of China	103.10.17	06/22/2017	3	23,000	0.03	23,000	0.03	-	-	-	-	MBA, University of Southern California Vice President of Citi Bank General Manager of Salomon Smith Barney Inc. Taipei Branch, Citi Group Chairman of Lehman Brothers Securities Taiwan Ltd. Managing Director of Nomura International (Hong Kong) Limited, Taipei Branch	Senior Partner of Millerful Capital Partners Inc Director of Lion Travel Service Co., Ltd. Independent Director of TPK Holding Co., Ltd. Independent Director of Clientron Corp. Independent Director of United Renewable Energy Co., Ltd.	-	-	-
Independent Director	LIU, DING-JEN	Male	Republic of China	103.10.17	06/22/2017	3	-	-	-	-	-	-	-	-	Master's Degree from the Institute of Electronics, National Chiao Tung University Executive Deputy General Manager of MediaTek Inc.	Independent Director of Leadtrend Technology Corporation	-	-	-
Independent Director	HUANG, TA-LUN	Male	Republic of China	106.6.22	06/22/2017	3	-	-	-	-	-	-	-	-	Master's Degree from University of Michigan -- Ann Arbor Partner of AsiaVest	Chairman of GCS Holdings, Inc. Juristic Person Director of Global	-	-	-

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

2. Principal Shareholder of the Juristic Person Shareholder

April 30, 2019

Name of Juristic Person Shareholder	Principal Shareholder of the Juristic Person Shareholder	Shareholding Ratio
HEADWAY CAPITAL LIMITED	LO, SEN CHOU	100.00%

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

3. Professional Knowledge and Independence of Directors

Criteria / Name	Whether He/She has over Five Years of Work Experience and the Following Professional Qualifications			Compliance with Independence										Number of Other Public Companies in which He/She is Concurrently an Independent Director
	A Lecturer or Above in the Department of Commerce, Law, Finance, Accounting or Other Departments Related to the Company's Business in a Public or Private Tertiary Institution	A Judge, Prosecutor, Attorney, Accountant or Other Professional and Technical Specialist who Has Passed a National Examination and has been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Area of Commerce, Law, Finance, Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
LO, SEN CHOU			✓				✓	✓	✓	✓		✓	✓	1
SHIH, CHEN-JUNG			✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	1
YU, MING-TO			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
HEADWAY CAPITAL LIMITED Corporate Representative - LIN, GONG-YI			✓		✓	✓	✓	✓	✓	✓	✓	✓		0
HEADWAY CAPITAL LIMITED Corporate Representative - LEE, YI-PIN			✓		✓	✓	✓	✓	✓	✓	✓	✓		0
RO, SHIH-HAO			✓		✓	✓		✓	✓	✓		✓		0
WENG, MING-JENG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
LIU, DING-JEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
HUANG, TA-LUN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Please check "✓" in the blanks of the various criteria codes below if the various directors and supervisors meet the following criteria two years before being elected or during the term of office.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates (but independent directors of the Company, its parent company, or its subsidiary company in which the Company directly or indirectly holds more than fifty percent (50%) of the voting shares shall not be subject to this restriction).

(3) A natural person shareholder who does not hold shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent (1%) or more of the total shares issued by the Company, or does not rank among the top ten in terms of shares held.

(4) Not the spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor or employee of a juristic person shareholder that directly holds five percent (5%) or more of the total shares issued by the Company, or ranks among the top five juristic person shareholders in terms of shares held.

(6) Not a director (Director), supervisor (Supervisor), manager or shareholder holding five percent (5%) or more of the shares of a specific company or institution with financial or business dealings with the Company.

(7) Not a professional or a business owner, partner, director (Director), supervisor (Supervisor) or manager of a sole proprietorship, partnership, company or institution providing commercial, legal, financial, accounting and other services or consultation to the Company or its affiliates, or the spouse of the said persons. However, members of the Remuneration Committee performing their duties according to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter shall not be subject to this restriction.
(8) Not a spouse or relative within the second degree of kinship of other directors.
(9) Has not been involved in the various circumstances stipulated in Article 30 of the Company Act.
(10) Has not been elected in the capacity of the government, juristic person or its representative in accordance with Article 27 of the Company Act.

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

April 30, 2019; Unit: Shares; %

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
General Manager	Shih-Hao Ro (Note 1)	Male	United States	12/01/2018	98,000	0.14	-	-	-	-	University of California, Riverside Business Manager and Vice General Manager of Egis Technology Inc. SBI & Capital 22 Mizuho Securities Asia Ltd	Nil	-	-	-
Chief Operating Officer and Chief Technology Officer	Gong-Yi Lin (Note 2)	Male	Republic of China	03/14/2014	90,000	0.13	-	-	-	-	Institute of Electronics, National Chiao Tung University Director of Chip Design Consultant Group of Synopsys for Asia Region	Juristic Person Director of Evershine BPO Service Corporation Juristic Person Director of Integrated Digital Technologies, Inc. Juristic Person Director of Tyrafos Technologies Co., Ltd. Director of AISTORM, INC. Director of Sirius Wireless Pte Ltd.	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Senior Deputy General Manager	Yi-Pin Lee (Note 3)	Male	Republic of China	09/01/2016	111,000	0.16	-	-	-	-	Central Missouri State University MBA Department of Economics, Chung Hsing University Chief Financial Officer of Primax Electronics Ltd. Chief Financial Officer of DaStrong Corporation Chief Financial Officer of Central Corporation Chief Financial Officer of TSTC Manager of Acer Inc.	Supervisor of Igistec Co., Ltd. Director of Sirius Wireless Pte Ltd. Juristic Person Director of Gingy Technology Inc.	-	-	-
Chief Financial Officer	George Chang (Note 4)	Male	Republic of China	04/09/2019	-	-	-	-	-	-	University of Southern California, Marshall School of Business Los Angeles, CA Sr. Deputy General Manager of Yuanta Securities Investment Consulting Co., Ltd.	Nil	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Deputy General Manager	Sky Su	Male	Republic of China	02/01/2008	134,000	0.19	-	-	-	-	Institute of Management of Technology, National Chiao Tung University Deputy General Manager of the Business Department of Ching Hu Technology Corporation	Director of Egis Tec USA Inc.	-	-	-
Deputy General Manager	David Hwang	Male	Republic of China	12/24/2012	23,254	0.03	-	-	-	-	Michigan State University, Master of Statistics General Manager of Wison Technology Corporation	Nil	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Deputy General Manager	Karen Chang	Female	Republic of China	11/13/2017	-	-	-	-	-	-	Institute of Science and Technology Management, National Taiwan University of Science and Technology Deputy Director of Science and Technology Forward-looking Group, Science and Technology Reporting Office, Executive Yuan Group Leader of Science and Technology Institute, Institute for Information Industry Office Director of Transnational Information Plan, Ministry of Science and Technology (iCAST)	Nil	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Deputy General Manager	Jimmy Hsu (Note 5)	Male	Republic of China	03/05/2018	42,500	0.06	-	-	-	-	Department of Mechanical Engineering, National Sun Yat-sen University Sr. Project Manager of Egis Technology Inc. Associate & Sr. Software Manager of Corel Software Manager & Software Engineer of Intervideo	Director of Egis Technology (Korea) Inc.	-	-	-
Deputy General Manager	Kos Lin (Note 6)	Male	Republic of China	12/01/2018	-	-	-	-	-	-	Graduate Institute of Electronics Engineering, National Taiwan University College of Electrical Engineering and Computer Science, National Taiwan University CEO of Theia Tech Co. Ltd. Technical Adviser of Shenzhen Goodix Technology Co., Ltd. Assistant Technical Manager of MediaTek Inc.	Chairman and General Manager of Igistec Co., Ltd.	-	-	-

Position	Name	Gender	Nationality	Date of Appointment	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in Others' Names		Main Work (Educational) Experience	Concurrent Positions Currently Held in Other Companies	Manager with Whom a Spousal Relationship or Relationship within the Second Degree of Kinship Exists		
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship
Accountant Manager	Kathy Huang	Female	Republic of China	11/14/2013	30,000	0.04	-	-	-	-	Department of Public Finance, National Chung Hsing University Manager of Accounting Department of Biodenta Corporation	Egis Technology (Japan) Inc. Supervisor	-	-	-
Deputy Audit Manager	Iris Lee	Female	Republic of China	07/02/2013	-	-	-	-	-	-	Department of Accounting, Shih Chien University Financial Manager of Dynamic Digital Holdings Limited	Nil	-	-	-

Note 1: Former Deputy General Manager, appointed as the General Manager on December 1, 2018

Note 2: Appointed as the Chief Technology Officer on April 1, 2019

Note 3: Appointed as the Senior Deputy General Manager of General Management Office on March 14, 2019

Note 4: Appointed on April 9, 2019

Note 5: Former Associate, promoted on March 5, 2018

Note 6: Appointed on December 1, 2018

3. Remunerations Paid to Directors, Supervisors, General Managers and Deputy General Managers for the Last Fiscal Year

(1) Directors' (Including Independent Directors) Remunerations

December 31, 2018; Unit: NTD’000; %

Position	Name	Directors' Remunerations								Percentage of Aggregate of Four Items A, B, C and D in Net Profit After Tax		Relevant Remunerations Received by Directors who are also Employees												Percentage of Aggregate of Seven Items A, B, C, D, E, F and G in Net Profit After Tax		Whether there are Remunerations Received from Invested Businesses other than Subsidiaries of the Company
		Rewards (A)		Severance Pension (B)		Directors Remuneration (C)		Business Implementation Fee (D)				Salaries, Bonuses and Special Disbursements, etc. (E)		Retirement Pension (F)		Employee Remunerations (G)				Number of Subscription Shares Received from Employee Stock Warrants (H) (Thousand Shares)		Number of New Restricted Employee Shares Acquired				
		The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company		All Companies in the Financial Reports		The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports	
																Amount in Cash	Amount in Shares	Amount in Cash	Amount in Shares							
Chairman	LO, SEN CHOU	0	0	0	0	8,972	8,972	388	388	9,360	9,360	29,946	29,946	216	216	17,100	0	17,100	0	175	175	103.7	103.7	8.44%	8.44%	Nil
Director	SHIH, CHEN-JUNG																									
Director	YU, MING-TO																									
Director (Juristic Person)	LIN, GONG-YI (Note 1)																									
Director (Juristic	LEE, YI-PIN (Note																									

c Person)	1)																									
Director	RO, SHIH-HAO																									
Independent Director	LIU, DING-JEN																									
Independent Director	WENG, MING-JENG																									
Independent Director	HUANG, TA-LUN																									

Note 1: The representative of the juristic person director, HEADWAY CAPITAL LIMITED.

Classification of Remunerations

Classification of Remunerations Paid to Various Directors of the Company	Name of Director			
	Aggregate Amount of First Four Items of Remunerations (A+B+C+D)		Aggregate Amount of First Seven Items of Remunerations (A+B+C+D+E+F+G)	
	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Reports
Less than NTD 2,000,000	LO, SEN CHOU; LIN, GONG-YI; SHIH, CHEN-JUNG; YU, MING-TO; WENG, MING-JENG; LIU, DING-JEN; HUANG, TA-LUN; LEE, YI-PIN; RO, SHIH-HAO	LO, SEN CHOU; LIN, GONG-YI; SHIH, CHEN-JUNG; YU, MING-TO; WENG, MING-JENG; LIU, DING-JEN; HUANG, TA-LUN; LEE, YI-PIN; RO, SHIH-HAO	SHIH, CHEN-JUNG; YU, MING-TO; WENG, MING-JENG; LIU, DING-JEN; HUANG, TA-LUN	SHIH, CHEN-JUNG; YU, MING-TO; WENG, MING-JENG; LIU, DING-JEN; HUANG, TA-LUN
NTD 2,000,000 (Inclusive) – NTD 5,000,000 (Exclusive)				
NTD 5,000,000 (Inclusive) – NTD 10,000,000 (Exclusive)			LIN, GONG-YI; LEE, YI-PIN	LIN, GONG-YI; LEE, YI-PIN
NTD 10,000,000 (Inclusive) – NTD 15,000,000 (Exclusive)			LO, SEN CHOU	LO, SEN CHOU
NTD 15,000,000 (Inclusive) – NTD 20,000,000 (Exclusive)				
NTD 20,000,000 (Inclusive) – NTD 25,000,000 (Exclusive)			RO, SHIH-HAO	RO, SHIH-HAO
Total	Nine persons in total	Nine persons in total	Nine persons in total	Nine persons in total

(2) Supervisors' Remunerations

Since the 5th Board of Directors, the Company has established an Audit Committee to replace the function of Supervisors. Therefore, this is not applicable.

(3) Remunerations of General Managers and Deputy General Managers

December 31, 2018; Unit: NTD; Thousand Shares; %

Position	Name	Salaries (A)		Severance and Pension (B)		Bonuses and Special Disbursements, etc. (C)		Amount of Employee Remunerations (D)				Aggregate of Four Items A, B, C and D as a Percentage of Net Profit After Tax (%)		Whether there are Remunerations Received from Invested Businesses other than Subsidiaries of the Company
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Reports	The Company	All Companies in the Financial Report	The Company		All Companies in the Financial Report		The Company	All Companies in the Financial Report	
								Amount in Cash	Amount in Shares	Amount in Cash	Amount in Shares			
Chairman	Sen Chou Lo	25,088	25,088	765	765	24,297	24,297	27,280	0	27,280	0	11.54%	11.54%	Nil
General Manager	Shih-Hao Ro (Note 1)													
Deputy General Manager	Gong-Yi Lin													
Deputy General Manager	Yi-Pin Lee													
Deputy General Manager	Sky Su													
Deputy General Manager	Enlin Jiang													
Deputy General Manager	David Hwang													
Deputy General Manager	Han Chung Seok													
Deputy General Manager	Karen Chang													
Deputy General Manager	Jimmy Hsu													
Deputy General Manager	Kos Lin (Note 2)													

Note 1: Assumed the position of General Manager on December 1, 2018.
Note 2: Assumed the position of Deputy General Manager on December 1, 2018.

Classification of Remunerations

Classification of Remunerations Paid to Various General Managers and Deputy General Managers in the Company	Name of General Manager and Deputy General Manager	
	The Company	All Companies in the Financial Reports
Less than NTD 2,000,000	Kos Lin	Kos Lin
NTD 2,000,000 (Inclusive) – NTD 5,000,000 (Exclusive)	David Hwang; Han Chung Seok; Karen Chang	David Hwang; Han Chung Seok; Karen Chang
NTD 5,000,000 (Inclusive) – NTD 10,000,000 (Exclusive)	Gong-Yi Lin; Yi-Pin Lee; Sky Su; Enlin Jiang, Jimmy Hsu	Gong-Yi Lin; Yi-Pin Lee; Sky Su; Enlin Jiang, Jimmy Hsu
NTD 10,000,000 (Inclusive) – NTD 15,000,000	Sen Chou Lo	Sen Chou Lo
NTD 15,000,000 (Inclusive) – NTD 20,000,000		
NTD 20,000,000 (Inclusive) – NTD 25,000,000	Shih-Hao Ro	Shih-Hao Ro
NTD 25,000,000 (Inclusive) – NTD 30,000,000		
Total	11 persons in total	11 persons in total

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

December 31, 2018; Unit: NTD; Thousand; %

	Position	Name	Amount in Shares	Amount in Cash (Note 1)	Total	Total Remuneration to the Net Profit After Tax Ratio (%)
Manager	General Manager	Shih-Hao Ro	-	23,680	23,680	3.53
	Chief Operating Officer	Gong-Yi Lin				
	Chief Financial Officer	Yi-Pin Lee				
	Chief Technology Officer	Enlin Jiang				
	Deputy General Manager	Sky Su				
	Deputy General Manager	Han Chung Seok				
	Deputy General Manager	David Hwang				
	Deputy General Manager	Karen Chang				
	Deputy General Manager	Kos Lin				
	Deputy General Manager	Jimmy Hsu				

Note 1: The resolution on employee remunerations was passed by the Board of Directors on March 14, 2019.

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

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

Unit: %

Item / Position	2017		2018	
	Total Remunerations as a Percentage of Net Profit After Tax (%)		Total Remunerations as a Percentage of Net Profit After Tax (%)	
	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report
Directors	9.63	9.63	8.44	8.44
Supervisor	-	-	-	-
General Managers and Deputy General Managers	13.65	14.33	11.54	11.54

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

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

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

IV. Corporate Governance Practices

(1) Practices of the Board of Directors

As of the publication date of this annual report, the Board of Directors has held eight (A) meetings (six in 2018 and two in 2019) in total. The attendance of directors was as follows:

Position	Name	Attendance in Person(B)	Attendance by Proxy	Rate of Attendance in Person (%)(B/A)	Remarks
Chairman	LO, SEN CHOU	7	1	87.50 %	
Director	SHIH, CHEN-JUNG	7	1	87.50 %	
Director	YU, MING-TO	6	0	75.00 %	
Director	Representative of HEADWAY CAPITAL LIMITED LIN, GONG-YI	6	2	75.00 %	
Director	Representative of HEADWAY CAPITAL LIMITED LEE, YI-PIN	8	0	100.00 %	
Director	RO, SHIH-HAO	5	3	62.50 %	
Independent director	WENG, MING-JENG	8	0	100.00 %	
Independent director	LIU, DING-JEN	7	1	87.50 %	
Independent director	HUANG, TA-LUN	6	1	75.00 %	

Other Matters to be Recorded:

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

(1) Matters listed in Article 14(3) of the Securities and Exchange Act

(2) Other resolutions of the Board of Directors that independent directors have an objection or reservation and which have a record or a written statement

Board of Directors	Contents of the Proposals and Subsequent Handling	For matters listed in 14(3) of the Securities and Exchange Act,	Independent directors hold objections or reservations
The 5th meeting of the 6th Board of Directors 03/05/2018	1.2017 Annual Business Report and Financial Statements of the Company.	V	No such situation
	2. Issuance of the 2017 Statement on Internal Control System of the Company.	V	No such situation
	3. Distribution plans of 2017 Employee Remuneration and Director Remuneration.	V	No such situation
	4.2017 Profit Distribution Plan.	V	No such situation
	5.2018 Assessment of the Independence and Advisability and Renewal of Certified Public Accountants.	V	No such situation

		6. Amendments to the part clauses in the Acquisition or Disposition of Asset Operations and Operation Approval Authorization of the Company.	V	No such situation	
		7. Formulation of the Method for Buying Back Shares and Transferring to Employees in 2018 of the Company.	V	No such situation	
		8. The Company expects to implement the Treasury Shares Method to buy back shares of the Company and transfer to employees.	V	No such situation	
		9. Handle the seal custodian of the related work of Endorsement Work Procedure through the Company.	V	No such situation	
		10. The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	V	No such situation	
		Opinions of the independent directors: Nil.			
		The Company's handling of the opinions of the independent directors: Nil.			
		Outcome of the Resolutions: All directors in attendance passed the resolutions.			
	The 5th meeting of the 6th Board of Directors The 6th	1. Consolidated financial statements of the Company for Q1 of 2018.	V	No such situation	
		Opinions of the independent directors: Nil.			
		The Company's handling of the opinions of the independent directors Nil.			
		Outcome of the Resolutions: All directors in attendance passed the resolutions.			
	The 8th meeting of the 6th Board of Directors (08/07/2018)	1. Consolidated financial statements of the Company for Q2 of 2018.	V	No such situation	
		2.The company's proposal to increase investment in AISTORM, INC.	V	No such situation	
		3. Formulation of Operating Procedures for Repurchase of Treasury Shares and Management of the Operating Procedures for Repurchase of Treasury Shares of the Company.	V	No such situation	
		Opinions of the independent directors: Nil.			
		The Company's handling of the opinions of the independent directors: Nil.			
		Outcome of the Resolutions: All directors in attendance passed the resolutions.			
	The 9th meeting of the 6th Board of Directors (09/18/2018)	1. Formulation of the Company's Regulations for the Second Share Repurchase and Transfer to Employees.	V	No such situation	
		2. Formulation of Buying Back Shares and Transferring to Employees by the Company.	V	No such situation	
		Opinions of the independent directors: Nil.			
		The Company's handling of the opinions of the independent directors: Nil.			
		Outcome of the Resolutions: All directors in attendance passed the resolutions.			
	The 10th meeting of the 6th Board of Directors (11/14/2018)	1. Consolidated financial statements of the Company for Q3 of 2018.	V	No such situation	
		2. The 2019 Audit Plan of the Company.	V	No such	
		3. Amendment of the "Regulations Governing Approval Authority" of the Company.	V	No such situation	
		4.The company's proposal to invest in Igistec Co., Ltd.	V	No such situation	
		5.The company's proposal to invest in Sirius Wireless Pte Ltd.	V	No such situation	
		Opinions of the independent directors: Nil.			
		The Company's handling of the opinions of the independent directors: Nil.			
		Outcome of the Resolutions: All directors in attendance passed the resolutions.			
	The 11th meeting of the 6th Board of Directors	1. The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	V	No such situation	
		Opinions of the independent directors: Nil.			
		The Company's handling of the opinions of the independent directors: Nil.			

(01/14/2019	Outcome of the Resolutions: All directors in attendance passed the resolutions.		
The 12th meeting of the 6th Board of Directors (03/14/2019)	1. The 2018 Annual Business Report and Financial Statements of the Company.	V	No such situation
	2. The 2018 Earnings Distribution Plan of the Company.	V	No such situation
	3. Issuance of the 2018 Statement on Internal Control System of the Company.	V	No such situation
	4. Appointment and remunerations of the certified public accountants for 2019.	V	No such situation
	5. Amendment to some clauses in "Operating Procedures for Acquisition or Disposal of Assets" of the Company.	V	No such situation
	6. Amendment of the "Regulations Governing Approval Authority" of the Company.	V	No such situation
	7. Dismissal of Chief Financial Officer of the Company.	V	No such situation
	8. Review of newly recruited Chief Financial Officer.	V	No such situation
	Opinions of the independent directors: Nil.		
	The Company's handling of the opinions of the independent directors Nil.		
	Outcome of the Resolutions: All directors in attendance passed the resolutions.		

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

Board of Directors Appointment	Cause(s)	Name of Director	Reason(s) for Recusal	Result of Voting
The 5th meeting of the 6th Board of Directors 03/05/2018	Ratification for the issuance of employee remuneration for 2016 and year-end bonus and performance bonus for 2017 to managers of the Company.	LO, SEN CHOU; LIN, GONG-YI; LEE, YI-PIN and RO, SHIH-HAO	Director and General Manager	With the exception in discussion and voting of directors LO, SEN CHOU, LIN, GONG-YI, LEE, YI-PIN and RO, SHIH-HAO who exercised recusal legally, the proposal was unanimously passed by the rest of directors in attendance without objection.
	The annual salary increase recognition of managers in 2018	LO, SEN CHOU; LIN, GONG-YI; LEE, YI-PIN and RO, SHIH-HAO	Director and General Manager	With the exception in discussion and voting of directors LO, SEN CHOU, LIN, GONG-YI, LEE, YI-PIN and RO, SHIH-HAO who exercised recusal legally, the proposal was unanimously passed by the rest of directors in attendance without objection.

	The company's issuance of performance bonus for the first half of 2018.	RO, SHIH-HAO	Director and General Manager	With the exception in voting of Director RO, SHIH-HAO who should exercise recusal, the proposal was unanimously passed without objection upon consultation with all directors available for voting by the Chairman.
	Director's remuneration distribution of the Company for 2017.	Several directors	Concerning several directors' remuneration	Apart from several directors whose remunerations are involved and did not participate in the discussion and voting, the proposal was unanimously passed without objection upon consultation with all other directors available for voting by the Chairman.
The 10th meeting of the 6th Board of Directors (11/14/2018)	Appointment and dismissal of the General Manager of the company	RO, SHIH-HAO	Director and General Manager	With the exception in voting of Director RO, SHIH-HAO who should exercise recusal, the proposal was unanimously passed without objection upon consultation with all directors available for voting by the Chairman.
The 11th meeting of the 6th Board of Directors (01/14/2019)	The lifting of non-competition restrictions on Managers	LIN, GONG-YI	Director LIN, GONG-YI serves assumed a position in the invested company	After Director LIN, GONG-YI explained the reason for serving in the invested company to other directors, the proposal was unanimously passed without objection upon consultation with all directors in attendance by the Chairman.
The 12th meeting of the 6th Board of Directors (03/14/2019)	The lifting of non-competition restrictions on Managers	LIN, GONG-YI	Director LIN, GONG-YI serves assumed a position in the invested company	Except Director LIN, GONG-YI avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.

	Allocation of year-end bonus and performance bonus and employee remunerations for 2018 to managers	LO, SEN CHOU, RO, SHIH-HAO, LIN, GONG-YI and LEE, YI-PIN	Director and General Manager	Directors LO, SEN CHOU, RO, SHIH-HAO, LIN, GONG-YI and LEE, YI-PIN avoided in this proposal. The proposal was presided over by the Independent Director WENG, MING-JENG and was unanimously passed without objection upon consultation with all directors in attendance by the Chairman.
	Dismissal of Chief Financial Officer of the Company.	LEE, YI-PIN	Director and General Manager	Except Director LEE, YI-PIN avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	Appointment and dismissal of the Chief Technology Officer of the Company.	LIN, GONG-YI	Director and General Manager	Except Director LIN, GONG-YI avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	Review of salary of the Chairman	LO, SEN CHOU and RO, SHIH-HAO	Director LO, SEN CHOU is the related person of the proposal, and Director RO, SHIH-HAO and Director LO, SEN CHOU have a relationship within the second degree of kinship	Director LO, SEN CHOU and Director RO, SHIH-HAO avoided in this proposal. The proposal was presided over by the Independent Director WENG, MING-JENG and was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	Allocation of treasury stocks to managers	LEE, YI-PIN	Director and General Manager	Except Director LEE, YI-PIN avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.

3. Goals in the enhancement of the functions of the Board of Directors in the current fiscal year and the last fiscal year (such as the establishment of an audit committee, enhancing information

transparency, etc.) and evaluation of such implementations:

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

1. The Company has formulated the Rules of Procedures for Board of Directors according to the Regulations Governing Procedure for Board of Directors of Public Companies through the resolution of the Board of Directors, and the Board of Directors has been operated in accordance with the Rules of Procedures for Board of Directors.

2. The Company has established independent directors, audit committee and remuneration committee, so as to strengthen the corporate governance functions of the Board of Directors.

3. The Company will regularly arrange for directors to participate in professional enrichment courses, so as to ensure that directors maintain their core values as well as their professional strengths and abilities.

(2) Assessment of Implementation Status

1. The Company has established the Remuneration Committee and Audit Committee on June 12, 2014 and October 17, 2014 respectively, so as to assist the Board of Directors in performing its duties.

2. The Company published important resolutions on the Market Observation Post System immediately after the board meetings to safeguard the rights and interests of shareholders. A special person was appointed with the responsibility of collecting and disclosing information on the Company, and a spokesperson system was established to ensure the timely and proper disclosure of important information, which serves as financial and business-related information of the Company for reference by the shareholders and interested parties.

(2) Practices of the Audit Committee

The Audit Committee has convened seven meetings (A) in total in fiscal year 2018 (five times) and 2019 (twice) as of the publication date of this annual report, and the attendance of the independent directors was as follows:

Position	Name	Attendance in Person(B)	Attendance by Proxy	Rate of Attendance in Person (%) (B/A)	Remarks
Independent Director	WENG, MING-JENG	7	0	100.00%	
Independent Director	LIU, DING-JEN	6	1	85.71 %	The Convener and the Chairman
Independent Director	HUANG, TA-LUN	5	1	71.43%	

Other Matters to be Recorded:

1. Any matter listed in Article 14-5 of the Securities and Exchange Act and other resolutions that were passed by two-thirds or more of all directors but not approved by the Audit Committee should be specified, with the date and session of the board meeting, contents of the proposal, the outcome of the resolution by the Audit Committee, and the Company's handling of the opinions of the Audit Committee provided in detail:

(1) Matters listed in Article 14(5) of the Securities and Exchange Act

(2) Resolutions that were passed by two-thirds or more of all directors but not approved by the Audit Committee

save the aforesaid matters:

Board of Directors	Contents of the Proposals and Subsequent Handling	For matters listed in Matters listed in Article 14(5)	Resolutions passed by two-thirds or more of all directors but not approved by the Audit Committee
The 5th meeting of the 6th Board of Directors 03/05/2018	1.2017 Annual Business Report and Financial Statements of the Company.	V	No such situation
	2. Issuance of the 2017 Statement on Internal Control System of the Company.	V	No such situation
	3. Distribution plans of 2017 Employee Remuneration and Director Remuneration.	V	No such situation
	4.2018 Assessment of the Independence and Advisability and Renewal of Certified Public Accountants.	V	No such situation
	5. Amendments to the part clauses in the Acquisition or Disposition of Asset Operations and Operation Approval Authorization of the Company.	V	No such situation
	6. Formulation of the Method for Buying Back Shares and Transferring to Employees in 2018 of the Company.	V	No such situation
	7. The Company expects to implement the Treasury Shares Method to buy back shares of the Company and transfer to employees.	V	No such situation
	8. Handle the seal custodian of the related work of Endorsement Work Procedure through the Company.	V	No such situation
	9. The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	V	No such situation
	Resolutions of the Audit Committee (03/05/2018): All members of the Audit Committee approved the resolutions.		

	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		
The 6th meeting of the 6th Board of Directors (05/08/2018)	1. Consolidated financial statements of the Company for Q1 of 2018.	V	No such situation
	Resolutions of the Audit Committee (05/08/2018): All members of the Audit Committee approved the resolutions.		
	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		
The 8th meeting of the 6th Board of Directors (08/07/2018)	1. Consolidated financial statements of the Company for Q2 of 2018.	V	No such situation
	2.The company's proposal to increase investment in AISTORM, INC.	V	No such situation
	3. Formulation of Operating Procedures for Repurchase of Treasury Shares and Management of the Operating Procedures for Repurchase of Treasury Shares of the Company.	V	No such situation
	Resolutions of the Audit Committee (08/07/2018): All members of the Audit Committee approved the resolutions.		
	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		
The 9th meeting of the 6th Board of Directors (09/18/2018)	1. Formulation of the Company's Regulations for the Second Share Repurchase and Transfer to Employees.	V	No such situation
	2. Formulation of Buying Back Shares and Transferring to Employees by the Company.	V	No such situation
	Resolutions of the Audit Committee (09/18/2018): All members of the Audit Committee approved the resolutions.		
	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		
The 10th meeting of the 6th Board of Directors (11/14/2018)	1. Consolidated financial statements of the Company for Q3 of 2018.	V	No such situation
	2. The 2019 Audit Plan of the Company.	V	No such situation
	3. Amendment of the "Regulations Governing Approval Authority" of the Company.	V	No such situation
	4.The company's proposal to invest in Igistec Co., Ltd.	V	No such situation
	5.The company’s proposal to invest in Sirius Wireless Pte Ltd.	V	No such situation
	Resolutions of the Audit Committee (11/14/2018): All members of the Audit Committee approved the resolutions.		
	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		
The 11th meeting of the 6th Board of Directors (01/14/2019)	1. The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	V	No such situation
	Resolutions of the Audit Committee (01/14/2019): All members of the Audit Committee approved the resolutions.		
	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		
The 12th meeting of the 6th Board of Directors (03/14/2019)	1. The 2018 Annual Business Report and Financial Statements of the Company.	V	No such situation
	2. The 2018 Earnings Distribution Plan of the Company.	V	No such
	3. Issuance of the 2018 Statement on Internal Control System of the Company.	V	No such situation
	4. Appointment and remunerations of the certified public accountants for 2019.	V	No such situation
	5. Amendment to some clauses in "Operating Procedures for Acquisition or Disposal of Assets" of the Company.	V	No such situation

	6. Amendment of the "Regulations Governing Approval Authority" of the Company.	V	No such situation
	7. Dismissal of Chief Financial Officer of the Company.	V	No such situation
	8. Review of newly recruited Chief Financial Officer.	V	No such situation
	Resolutions of the Audit Committee (03/14/2019): All members of the Audit Committee approved the resolutions.		
	The company’s handling of the opinions of the Audit Committee All directors in attendance passed the resolutions.		

2. In the event that any independent director has to abstain from voting on any proposal due to a conflict of interest, the name of the independent director, the content of the proposal, reason(s) for recusal, and the result of the voting should be specified: No such situation.
3. Communications between the independent directors and internal audit supervisors, as well as accountants (such as matters related to the financial or business situation of the Company that were communicated, the mode and outcome of such communications, etc.)
Notes: (1) Direct communication may be made with the audit supervisors and accountants where necessary, and the status of the audit shall be reported directly by the auditing personnel during the board meeting.
(2) The Audit Committee of the Company is in good communication with the certified public accountants. The certified public accountants report the results of the audit or review of the financial statements of the current year and other matters to be communicated in accordance with the requirements of the relevant laws in meeting of the Audit Committee every year. They will also report to the Audit Committee when special situations arise.

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

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
1. Did the Company formulate and disclose its Code of Corporate Governance Practices according to the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies"?	✓		The Company has formulated Code of Corporate Governance Practices of Aegis Technology Inc. which is available on the Company’s website for stakeholders to download.	No major discrepancy
2. Shareholding Structure of the Company and Shareholders' Equity				
(1) Did the Company establish internal operating procedures to deal with the proposals, doubts, disputes and litigation matters of shareholders, and implement these in accordance with the procedures?		✓	(1) The Company has a spokesperson, and the spokesperson, acting spokesperson, shareholder services unit, investor relations unit, as well as the relevant departments of the legal unit acting as channels for proposals by and communication with shareholders, and proper execution is in place.	No major discrepancy
(2) Does the Company have a list of the principal shareholders who are in actual control of the Company and the ultimate controllers of the principal shareholders?	✓		(2) The shareholder services unit is responsible for controlling information related to the Company, and it maintains close contact with the principal shareholders.	No major discrepancy
(3) Did the Company establish and implement risk control and firewall mechanisms between itself and its related enterprises?	✓		(3) The Company has established relevant controls in the Company's internal control system and "Regulations for Financial- and Business-Related Operations with Related Enterprises" according to law.	No major discrepancy
(4) Did the Company establish internal standards to prohibit insiders from trading in securities using information that is undisclosed to the market?	✓		(4) The Company has formulated Article 6 of the "Operating Procedures for the Management of Significant Internal Information" to prohibit directors,	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			supervisors, managers and employees with knowledge of significant internal information of the Company from disclosing the said information to others. In addition, the "Management Procedures for the Prevention of Insider Trading" prohibit the disclosure of any information to the public or the adoption of any prohibited actions before the release of significant information, so as to ensure the correctness and popularity of the information.	
3. Composition and the Duties of the Board of Directors (1) Did the Board of Directors formulate and implement a diversity policy with regard to its membership composition? (2) Apart from establishing the Remuneration Committee and Audit Committee in accordance with the law, did the Company establish other functional committees at its own will? (3) Did the Company formulate methodologies and methods for performance appraisal of the Board of Directors, and conduct the annual performance appraisal on a regular basis?	 ✓ ✓	 ✓ 	(1) The Company has established a diversity policy for members of the Board of Directors in the "Code of Corporate Governance Practices". The Company selects persons who have the knowledge, skills and literacy necessary for performing the duties as directors, based on the professional background and work areas. The details for the implementation of Board diversity policy by several directors are set out in Note 1. (2) Apart from the Remuneration Committee and Audit Committee, the Company has not established any other functional committees at this point. (3) The Company has formulated the Methods for Performance Appraisal of the Board of Directors and conducts director self-appraisal and implementation of	No major discrepancy No major discrepancy No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
(4) Does the Company evaluate the independence of the certified public accountants on a regular basis?	✓		the Board of Directors' record for various appraisal indicators of the previous year made at the start of each year in accordance with provisions of the Method, and the results of the appraisal are submitted in a report to the Board of Directors. (4) The Financial Department of the Company evaluates the independence of the certified public accountants once a year and reports the results to the Audit Committee and the Board of Directors for consideration and approval. Upon appraisal, all are in line with the Company's independence standards, and are able to undertake the Company's certified public accountants. The evaluation criteria for certified public accountant's independence are detailed in Note 2.	No major discrepancy
4. Did the Company establish a dedicated (part-time) corporate governance unit or personnel to undertake corporate governance-related businesses (including but not limited to providing directors and supervisors with the information required for performing business, handling matters related to board meetings and shareholders' meeting in accordance with the law, handling the registration and modification of registration of the Company, and preparing minutes of	✓		The Company has promoted the establishment of the corporate governance area dedicated (part-time) units to be the Company's equity unit to undertake the implementation of all corporate governance-related matters, including handling of matters related to board meetings or shareholders' meetings according to law, modification of registration of the Company, regular reviews and revisions of Code of Corporate Governance, preparing minutes of board meetings and shareholders' meetings, and arranging enrichment courses for directors and managers on a regular basis, etc.	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
board meetings and shareholders' meeting, etc.)?				
5. Did the Company establish communication channels with stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.), set up a stakeholder area on the Company's website and respond to important corporate social responsibility issues that are of concern to stakeholders in an appropriate way?	✓		In order to maintain a smooth communication channel with stakeholders, the Company has set up a section for stakeholders on the Company's website (http://www.egistec.com). In the event that a stakeholder suffers an infringement of his/her rights, discovers an employee of the Company to be involved in behavior that is illegal or in violation of the Company's corporate governance, or has any doubts or suggestions related to the Company, the stakeholder can contact the Company through this channel, and there will be a specially assigned personnel who will reply and handle the matter.	No major discrepancy
6. Has the Company appointed a professional shareholder services agency to handle the affairs related to the Board of Shareholders?	✓		The Company has appointed the Stock Service Department of Yuanta Securities Co., Ltd. as the shareholder services agency of the Company, and it shall handle affairs related to the Board of Shareholders.	No major discrepancy
7. Information Disclosure (1) Has the Company established a website for the disclosure of its financial, business and corporate governance information? (2) Has the Company adopted other measures for the disclosure of information (such as setting up an English website, appointing personnel to be responsible for the collection and	 ✓ ✓		(1) The Company has disclosed information related to its business, financial and corporate governance status on the Company's website. (http://www.egistec.com) (2) The Company has an appointed spokesperson and an acting spokesperson. It has also designated a personnel to be responsible for the collection and disclosure of information to be released to the public (including the	 No major discrepancy No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
disclosure of information related to the Company, implementing a spokesperson system, and posting investor conferences on the Company's website, etc.)?			English website and the legal representative explanation meeting), so as to provide the spokesperson, acting spokesperson, and the relevant business departments with the resources to answer inquiries from stakeholders and the competent authorities.	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
8. Has the Company disclosed other important information (including but not limited to employee rights, employee welfare, investor relations, supplier relations, the rights of stakeholders, training records of the directors and supervisors, implementation status of risk management policies and risk assessment criteria, implementation status of customer relations policies, and whether the Company has purchased liability insurance for its directors and supervisors) to facilitate a better understanding of its corporate governance practices?	✓		(1) Implementation status of employee rights and employee welfare: The Company has open communication channels and is able to handle, answer and address the expectations, suggestions, doubts and grievances of employees in a reasonable and appropriate manner. Attention is paid to the rights and interests of employees and concern is shown towards the employees; a work environment with gender equality and prevention and elimination of sexual harassment among staff was established; the Staff Welfare Committee organizes various travel activities for staff every year; and staff with outstanding work performance are commended as excellent employees at the end of each year. (2) Investor relations: The Company upholds the principles of fairness and openness in its treatment of all shareholders, and convenes the shareholders' meeting every year in accordance with the Company Act, as well as the relevant laws and regulations. It also notifies all shareholders to attend the shareholders' meeting in accordance with the relevant regulations, encourages shareholders to actively participate in motions such as those regarding the election of the directors and supervisors or revisions to the Articles of Association, and it reports important financial and business	No major discrepancy

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			decisions such as the acquisition and disposal of assets, as well as endorsements and guarantees, etc. in the shareholders' meeting. The Company also provides ample opportunities for shareholders to raise inquiries or proposals in order to have effective checks and balances. It has formulated the rules of procedure for shareholders' meetings in accordance with the law, and has properly kept the minutes of shareholders' meetings, as well as made full disclosure of the relevant information on the Market Observation Post System. In addition, in order to ensure that shareholders are fully aware of the major issues of the Company, enjoy full participation and decision-making rights, the Company has established the positions of spokesperson and acting spokesperson, as well as designated personnel to handle the suggestions, doubts and disputes of shareholders. Since the Company's public offering, it has designated personnel to be responsible for the collection and disclosure of information related to the Company, handling of the announcements and declarations of the relevant information, as well as provision of timely information that may affect the decision-making of investors according to the principles of information disclosure. (3) Supplier relations: The Company carries out the audit	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			and management of suppliers on the basis of good faith to ensure that suppliers are able to meet the various environmental regulations and fulfill its social responsibility, and continue to provide price-competitive products that meet the standards of the Company. The Company shall continue to uphold the spirit of mutual trust and mutual benefit with its suppliers in the hope that the suppliers can grow and achieve a win-win situation together with the Company. (4) Rights of stakeholders: Depending on the circumstances, the Company may instruct the investor relations, shareholder services and legal affairs departments, etc. to communicate with stakeholders, and it has listed the contact information of the spokesperson as well as the various relevant business departments on the Company's website. A section dedicated to stakeholders has been set up on the Company's website (http://www.egistec.com). Stakeholders may communicate with the Company and raise suggestions at any time to safeguard their rights and interests. (5) Implementation status of risk management policies and risk assessment criteria: With regard to the risk management policies and risk assessment criteria of the Company, the Office of the General Manager, the	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			Business Department, Finance Department and other units are jointly responsible for the implementation of the risk management policies and performance of risk assessment. Please refer to Section VII, (6) Explanation on Risk Management Assessment of the current year's annual report for details. (6) Implementation status of customer relations policies: The Company has always maintained strict confidentiality of the secrets of its customers. Where a competitive relationship exists between customers, the internal department will set up different teams to service the customers, and firewalls will be established to protect the information of the customers. Discussions on the secrets of customers are generally prohibited in the Company as well as in public places, so as to achieve the goal of customer protection. At the same time, a customer complaint handling mechanism has been established for the appropriate identification of problems in customer complaints and for the attribution of responsibility, so as to protect the rights and interests of customers. In addition, customer satisfaction surveys are carried out to ensure that customers are most satisfied with the services provided. (7) Purchase of liability insurance for the directors and supervisors by the Company: The Company has	

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
			purchased liability insurances from Fubon Insurance for directors and managers as described in Note 3. (8) 2018 training records of directors and managers are as described in Note 4.	
9. Please explain the improvements that have been made with regard to the Corporate Governance Evaluation results released in the last fiscal year by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, as well as suggest priority enhancement matters and measures to be taken for matters that have not been improved. This year's improvement of corporate governance includes providing Chinese and English shareholders' meeting handbooks, annual reports as well as Chinese and English financial reports and setting up pages with relevant information on the Company's website, to enhance information				

Assessment Item	Implementation Status			Discrepancy with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancy
	Yes	No	Summary Description	
transparency (including communication channels with stakeholders), strengthen the structure and operation of the Board of Directors, implement corporate social responsibility as well as the spirit of corporate governance within the stipulated time limits. The Company will continue to demonstrate perpetual strength in economic, environmental and social aspects, and it shall continue to uphold the enterprise's core values of honesty and integrity in shouldering its long-term and perpetual responsibilities towards the various stakeholders and the society.				

Note 1: The implementation of Board diversity policy by some Directors

Core Items of Diversification / Name of Director	Gender	Professional Background (Education)	Operating Judgement Capability	Accounting and Financial Analysis Capability	Operating Management Capability	Crisis Management Capability	Domain Know-how	International Market Viewpoint	Leadership	Decision-making Capability
LO, SEN CHOU	Male	National University MBA, San Jose, USA	V		V	V	V	V	V	V
SHIH, CHEN-JUNG	Male	Honorary Doctor of International Law, Thunderbird International Management Institute	V		V	V	V	V	V	V
YU, MING-TO	Male	Master of Business Administration, Wharton School of the University of Pennsylvania	V	V	V	V		V	V	V
LIN, GONG-YI	Male	Institute of Electronics, National Chiao Tung	V		V	V	V	V	V	V

LEE, YI-PIN	Male	Central Missouri State University MBA	V	V	V	V		V	V	V
RO, SHIH-HAO	Male	University of California, Riverside	V		V	V	V	V	V	V
WENG, MING-JENG	Male	MBA, University of Southern California	V	V	V	V		V	V	V
LIU, DING-JEN	Male	Master’s Degree from the Institute of Electronics, National Chiao Tung	V		V	V	V	V	V	V
HUANG, TA-LUN	Male	Master’s Degree from University of Michigan -- Ann Arbor	V	V	V	V		V	V	V

Note 2: Assessment Criteria for Independence of Accountant

Assessment Item	**Assessment Results**	**Independent or not**
1. The accountant is engaged by the Company as a regular employee, and receives fixed salary or serves as a director or supervisor.	No	Yes
2. The accountant once served as a director, supervisor, manager or an employee who has had a significant influence on the certification work of the Company, and was dismissed less than 2 years ago.	No	Yes
3. The accounting firm and the Company are related parties to each other.	No	Yes
4. The accountant has a spousal relationship or a relationship within the second degree of kinship with the person in charge or manager of the Company.	No	Yes
5. The accountant or his/her spouse or minor child has an investment or shared profits in the Company.	No	Yes
6. The accountant or his/her spouse or minor child has funds borrowed from or lent to the Company.	No	Yes
7. The accountant has been appointed for the certification for seven consecutive years.	No	Yes
8. The accountant has not provided an independence statement every year.	No	Yes
9. The Company has been sued for financial reports or corrected by the competent authority during the year of assessment.	No	Yes

10. The quality of service such as auditing and taxation has not met the requirements.	No	Yes
11. The size and reputation of the accounting firm have been seriously damaged during the year of assessment.	No	Yes
12. Poor interaction between the accountant and management and internal audit supervisor .	No	Yes

Note 3: Purchase of Liability Insurance for Directors and Managers

Insured	Insurer	Insurance Premiums	Duration of Insurance
All the directors and managers	Fubon Insurance Co., Ltd.	USD 7,500	From October 1, 2018 to October 1, 2019

Note 4: 2018 Training Records of Directors and Managers

Position	Name	Training Date	Topics	Number of Training Hours
Chairman	LO, SEN CHOU	1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3
		1071114	Latest Revision Trends and Analysis of Company Act	3
Director	SHIH, CHEN-JUNG	1070321	Current Development Trend of Corporate Governance and Outlook for Taiwan's IPO Capital Market	3
		1070509	Influence of International Politics and Economies on Taiwan's Communication Industry	3
		1070808	Important Laws and Regulations Updates	1.5
		1070829	Analysis of Regulations on Anti-Money Laundering and Combating Terrorist Financing	2
		1071107	International Trade Outlook of 2019 from the Observation of the US-China Trade Conflict	1.5
Director	YU, MING-TO	1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3

		1071108	Corporate Governance and Relevant Securities Regulations	3
		1071108	Key Point of the Latest Amendment of Company Act and Practice Discussion	3
Director	LIN, GONG-YI	1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3
		1071114	Latest Revision Trends and Analysis of Company Act	3
Director	LEE, YI-PIN	1070130	Corporate M&A Fraud Case Study from the Perspective of Corporate Governance	3
		1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3
		1070926	2018 ESG Investment Forum	3
		1071114	Latest Revision Trends and Analysis of Company Act	3
Director	RO, SHIH-HAO	1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3
		1071114	Latest Revision Trends and Analysis of Company Act	3
Independent director	LIU, DING-JEN	1070504	Latest Trends and Analysis of Company Act	3
		1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3
Independent director	WENG, MING-JENG	1070807	Development Trend and Important Norms of Money Laundering and Terrorist Financing Control	3
		1071004	FIT Global Developing Competitive Strategy	3
Independent director	HUANG, TA-LUN	1071214	International Tax Updates	3
		1071214	OECD Topics and International Case Study	3

2018 Training Records of the Managers:

Accountant officer:	Kathy Huang	Continuing Education Course for Issuer Securities Dealer Accounting Supervisor	12
Audit supervisor	Iris Lee	Analysis on the Internal Control Practices of the Latest Labor Law Amendment and Recent Corruption Cases	6
		How Internal Auditors Assist in Response to Corporate Crisis - Internal Audit Internal Control and Legal Compliance	6

		Perspective	

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

1. Particulars of the Members of the Remuneration Committee

Position	Criteria / Name	Whether He/She has Five Years or More of Work Experience and the Following Professional Qualifications			Compliance with the Status of Independence (Indicate 1)								Number of Other Public Companies in which He/She is Concurrently an Independent Director
		A Lecturer or Above in the Department of Commerce, Law, Finance, Accounting or Other Departments Related to the Company's Business in a Public or Private Tertiary Institution	A Judge, Prosecutor, Attorney, Accountant or Other Professional and Technical Specialist who Has Passed a National Examination and has been Awarded a Certificate in a Profession Necessary for the Business of the Company	Possesses Work Experience in the Area of Commerce, Law, Finance, Accounting or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Independent Director	WENG, MING-JENG			✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Independent Director	LIU, DING-JEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director	HUANG, TA-LUN			✓	✓	✓	✓	✓	✓	✓	✓	✓	0

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

(1) Not an employee of the Company or any of its related enterprises.

(2) Directors and supervisors of non-company related enterprises (but excluding independent directors set up by the Company or its parent company, or a subsidiary company under this Act or a local law).

(3) A natural person shareholder who does not hold shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent (1%) or more of the total shares issued by the Company, or does not rank among the top ten in terms of shares held.

(4) Not the spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor or employee of a juristic person shareholder who directly holds five percent (5%) or more of the total shares issued by the Company, or ranks among the top five juristic person shareholders in terms of shares held.

(6) Not a director, supervisor, manager or shareholder who holds five percent (5%) or more of the shares of any specific company or organization that has financial or business dealings with the Company.

(7) Not a professional or a business owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company or institution that provides commercial, legal, financial, accounting and other services or consultation to the Company or its related enterprises, or the spouse of the said person. However, this limitation does not apply to members of the Remuneration Committee who exercise their duties and powers according to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8) Not in violation of any of the matters listed in Article 30 of the Company Act.

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2. Duties and Powers of the Remuneration Committee

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

(1) Periodically review the regulation and propose recommendations for amendments.

(2) Establish and periodically review the annual and long-term performance goals, as well as the policies, systems, standards and structure for remuneration of the directors and managers of the Company.

(3) Periodically assess the degree to which performance goals for the directors and managers of the Company have been achieved, and establish the contents and amounts of their individual remunerations.

3.Information on the Operational Situation of the Remuneration Committee

(1) The Remuneration Committee of the Company comprises of three members.

(2) As of the publication date of this annual report, the Remuneration Committee has held five (A) meetings (three in 2018 and two in 2019) in total. The attendance of the committee members was as follows:

Position	Name	Attendance in Person(B)	Attendance by Proxy	Rate of Attendance in Person (%) (B/A)	Remarks
Committee Member	WENG, MING-JENG	5	0	100.00%	
Committee Member	LIU, DING-JEN	4	1	80.00%	The Convener and the Chairman
Committee Member	HUANG, TA-LUN	4	1	80.00%	
Other Matters to be Recorded: 1. Where the Board of Directors declines to adopt or modifies a recommendation of the Remuneration Committee, the date and session of the board meeting, contents of the proposal, outcome of the resolution by the Board of Directors and the Company's handling of the opinions of the Remuneration Committee should be specified: No such situation. 2. If with respect to any resolution of the Remuneration Committee, any member has a dissenting or qualified opinion that is on record or stated in a written statement, the date and session of the Remuneration Committee meeting, content of the proposal, as well as the opinions of all committee members and the handling of their opinions shall be specified: No such situation.					

(5) Status of Implementation of Social Responsibility

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
1. Implementation of Corporate Governance				
(1) Does the Company have a corporate social responsibility policy or system and has its effectiveness been evaluated?	✓		(1) In order to promote the spirit of corporate governance and fulfill its social responsibility, the Company has instructed each department to perform its corporate social responsibility to the best of its ability in accordance with its duties. The Company's dedicated corporate social responsibility unit has formulated a corporate social responsibility code of practice and will propose it at the board meeting for deliberation and resolution.	The Company has formulated a code of practice for corporate social responsibility.
(2) Does the Company organize corporate social responsibility trainings on a regular basis?	✓		(2) Trainings for new personnel and new supervisors, as well as trainings on ethics, channels of communication for supervisors, and courses preaching corporate social responsibility related to integrity, human rights, staff management and employee communication are organized regularly.	
(3) Does the Company have a dedicated (or ad-hoc) unit for the promotion of corporate social responsibility that is managed by senior management as authorized by the Board of Directors, and which reports to the Board of Directors on the status of implementation?	✓		(3) The Company has designated the Office of the General Manager as its dedicated corporate social responsibility unit, and each department shall perform its corporate social responsibilities	No major discrepancy
(4) Does the Company have a reasonable remuneration policy that is integrated with the employee performance appraisal system and corporate social responsibility policy, as well as a clear and	✓			No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
effective incentive and disciplinary system?			to the best of its ability in accordance with its duties. (4) The Company has formulated the "Personnel Regulations and Work Management Rules" and set out incentive and disciplinary standards, as well as the relevant performance appraisal system. Reasonable adjustments to remunerations are made by appraising employee performance based on the work performance and abilities of employees, and education and training are organized for new staff to promote business ethics and culture.	No major discrepancy
2. An Environment of Sustainable Development (1) Is the Company committed to improving efficiency in the utilization of each resource? Does it use renewable materials that have a low impact on the environment?	✓		(1) The Company is a company of software and hardware design, with no physical product which would cause impact on the environment. The Company is committed to improving efficiency in the utilization of each resource, to achieve energy conservation, waste reduction, and reduce impact on environment, so as to safeguard earth's resources and protect environmental health.	No major discrepancy
(2) Has the Company established an appropriate environmental management system according to its industrial characteristics?		✓	(2) The Company has yet to establish an environmental management system, but it has implemented measures for resource recovery	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(3) Does the Company pay attention to climate changes on business activities, and has it implemented a greenhouse gas inventory system and formulated energy conservation, carbon reduction and greenhouse gas reduction strategies?	✓		and power-saving measures in office lightings, and has achieved effectiveness in resource conservation. The recycling of waste has also been entrusted to an agency that has obtained the waste removal and disposal permit. (3) The Company consistently promotes energy conservation and carbon reduction policies, advocates the habit of switching off lights and air-conditioners in employees, as well as encourages the recycling and reusing of paper. It also classifies waste in accordance with the resource recovery policy and has commissioned a legal company for proper recovery of the waste generated.	No major discrepancy
3. Safeguarding Social Welfare (1) Does the Company formulate management policies and procedures in accordance with the relevant laws and regulations, as well as the International Bill of Human Rights? (2) Does the Company have an established mechanism and channel for employee grievances and does it	✓ ✓		(1) The Company is in compliance with the relevant laws and regulations such as the Labor Standards Act and Gender Equality in Employment Act, and observes the internationally recognized fundamental principles of labor rights. It has formulated the "Personnel Regulations and Work Management Rules", which specifies the policies for employment, incentives and disciplinary actions, so as to safeguard the	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
handle the grievances in an appropriate manner?			legitimate rights and interests of employees. (2) The Company has established a mechanism and channel (mailbox) for employee grievances. Employees may file grievances in secret and without fear of retaliation. There have been no grievances from employees up to this point.	No major discrepancy
(3) Does the Company provide employees with a safe and healthy working environment, and educate employees on safety and health on a regular basis?	✓		(3) The Company has equipped with safety and health management staff and conducted safety and health educational training courses, as well as overhauls of fire-fighting equipment on a regular basis, so as to provide employees with a safe and healthy work environment.	No major discrepancy
(4) Has the Company established a mechanism for regular communication with employees? Does it adopt reasonable measures to notify employees of operational changes that may result in significant impact?	✓		(4) The Company holds ad-hoc staff communication meetings to communicate the operational changes as well as major decisions of the Company, and it has established multiple communication channels (mailbox) for employees, so as to observe the rights of employees with regard to the receipt of relevant information and expression of their opinions.	No major discrepancy
(5) Has the Company established effective career development training plans for employees?	✓		(5) The Company has created a good environment for the career development of employees, and it has also established effective career development training plans.	No major discrepancy
(6) Has the Company formulated relevant policies to protect the rights and interests of consumers, as well as grievance procedures, with regard to research and development, procurement, production, operations and service processes?	✓			
(7) Is the Company in compliance with the relevant laws and regulations, as well as international		✓		

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
standards in the marketing and labelling of its products and services? (8) Does the Company evaluate the social and environmental track records of suppliers before engaging in business dealings with the suppliers? (9) Do the Company's contracts with its major suppliers contain clauses for termination or rescission at any time if suppliers violate the corporate social responsibility policy of the Company and causes significant environmental and social impact?	✓ ✓		(6) The Company maintains good channels of communications with customers, and it has provided transparent and effective procedures for handling customer complaints with regard to its products and services. Customers may communicate with the Company and provide suggestions at any time, in order to safeguard their due rights and interests. (7) The Company is in compliance with the relevant laws and regulations, as well as international standards, in the marketing and labelling of its products. (8) The Company has assessed and evaluated its suppliers, and it will enhance the assessment of the environmental and social impact caused by suppliers in the future. (9) The Company assesses its suppliers and evaluates their operations regularly, and it will include the corporate social responsibility of both parties, as well as the relevant contract termination clauses when signing contracts with suppliers in the future.	No major discrepancy No major discrepancy No major discrepancy No major discrepancy
4. Enhancing Information Disclosure Does the Company disclose relevant and reliable	✓		The Company disclosed Code of Ethical Business and related information	No major discrepancy.

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
corporate social responsibility information on its website and the Market Observation Post System?			formulated on the Company's website (http://www.acer-group.com) and Market Observation Post System.	

5. If the Company has formulated its own corporate social responsibility principles based on the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, please specify any discrepancies between the formulated principles and its implementation:

The Company will formulate a code of corporate social responsibility. The spirit of the principles will be inculcated by strengthening the measures such as education, training and promotion, so as to develop a sustainable environment, safeguard social welfare, and enhance the implementation of principles related to the disclosure of corporate social responsibility information, etc. No discrepancy.

6. Other important information to facilitate better understanding of the corporate social responsibility practices:

(1) Environmental Protection: The Company implements and manages environmental protection in accordance with the laws.

(2) Rights and Interests of Consumers: The Company has dedicated staff to handle the complaints of customers, and protect the rights and interests of consumers.

(3) Human Rights, Safety and Health: As far as corporate social responsibility is concerned, the protection of the employment security, safety and health of employees should be the main subject with regard to respect for human rights. The Company has always been responsible for the rights and interests of its employees, providing employees with fair employment opportunities, a good working environment and reasonable welfare without differential treatment due to gender or racial differences, etc., thus guaranteeing the employment opportunities of employees and providing employees with stability in their life and job. In addition, in order to protect the work environment and the personal safety of employees, the Company has designated a labor safety and health management staff to enforce management and control in accordance with governmental regulations and standards. According to the concept of corporate ethics, the Company has established communication channels between the management and employees through the holding of regular labor meetings and through multiple employee communication channels (mailbox), so as to fulfill its corporate social responsibility of respecting the human rights of employees and safeguarding the rights and interests of employees.

(4) Other corporate social responsibility activities:

Assessment Item	Implementation Status			Discrepancies with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
1. The Company has donated a batch of clothes to Eden Social Welfare Foundation. 2. The Company purchased the love gift box of Syin-Lu Social Welfare Foundation, and supported one of its workshops to provide better quality services for the disabled.				
7. It should be specified whether the corporate social responsibility report of the Company has passed the verification standards of the relevant verification institution: The Company has not prepared any corporate social responsibility report up to this point.				

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

(1) Lighting section: Improve lighting fixtures, replace old lighting fixtures such as incandescent lamps and halogen lamps, etc., and fully use energy-saving LED lamps; during the noon break, lighting in the office is turned off or partially turned off.

(2) Power section: During Spring Festival and consecutive holidays, all units are reminded to remove plugs of electrical appliances that can be removed, such as drinking fountains and refrigerators.

(3) Others: Set up exclusive transaction machine space, and sharply reduce the number of transaction machine (only one transaction machine is used after office decoration) and list machine through the following printed functions of transaction machine, which can reduce carbon emissions and energy-saving (standby power of transaction machine); effective classification of waste material and resource recycling.

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

Implementation of Ethical Management

Assessment Item	Implementation Status			Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
1. Formulation of Ethical Management Policy and Programs				
(1) Did the Company expressly specify the ethical management policy and measures as well as the commitment on active implementation of the management policy by the Board of Directors and the management in its regulations and public documents?	✓		(1) The Company has formulated the "Ethical Management Principles", "Code of Ethical Conduct", "Operating Procedures and Behavioral Guidelines for Ethical Management", as well as the "Code of Corporate Governance Practices", etc. and published them on the Company's website. Integrity is a core value of our Company and it is also fundamental to enterprise management. These principles apply to the directors, managers, employees and related personnel of the Company.	
(2) Has the Company formulated programs against unethical conduct, and expressly stated the operating procedures, behavioral guidelines, disciplinary actions and grievance system for violations of regulations in the various programs, as well as implemented these programs?	✓		(2) The Company has formulated the "Ethical Management Principles", the "Code of Ethical Conduct" and "Operating Procedures and Behavioral Guidelines for Ethical Management", strictly requiring that all decisions and actions of the Company be made in conformity with the laws and regulations. The Company also promotes and strengthens the concept of ethical	
(3) Does the Company adopt any preventive measures against the various items under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed	✓			

Assessment Item	Implementation Status			Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
Companies" or other operating activities with relatively high risk of unethical conduct within the scope of business?			management through education. (3) Apart from conducting education and training programs, as well as publishing relevant implementation manuals for the promotion/regulation of ethical conduct, the Company also conducts internal audits or regular rotation of jobs to lower risks with regard to units/personnel (such as procurement, capital) with potentially higher risk.	
2. Implementation of Ethical Management (1) Does the Company assess the ethical records of its trading partners, and does it specify clauses on ethical conduct in contracts signed with its trading partners? (2) Has the Company set up a dedicated (or ad-hoc) unit that is accountable to the Board of Directors to promote corporate ethical management, and which regularly reports the execution thereof to the Board of Directors?	✓ ✓		(1) The Company has formulated the "Ethical Management Principles", the "Operating Procedures and Behavioral Guidelines for Ethical Management". The Company takes into consideration the legitimacy of its trading partners, as well as whether they have any record of unethical conduct in its various business dealings, so as to ensure that all business activities are in compliance with the principle of ethical conduct. It has also specified in its contracts with the trading partners that the contracts may be unconditionally terminated or rescinded at any time in the event of any	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
			involvement of unethical conduct by the trading partners which damages the interests of the Company.	
(3) Has the Company formulated policies to prevent conflicts of interest, provided adequate channels for reporting such situations, and implemented these measures?	✓		(2) The Company has formulated the "Ethical Management Principles". The Human Resources and Administration Department has been designated as the dedicated unit to assist the Board of Directors and management in checking and assessing the effectiveness of the preventive measures established for the implementation of ethical management, and shall report to the Board of Directors whenever necessary.	No major discrepancy
(4) Has the Company established an effective accounting system and internal control system for the implementation of ethical management, and appointed an internal audit unit to conduct periodic audits, or commissioned accountants to conduct audits?	✓		(3) Policies on conflicts of interest and situations/standards of contravention are specified in the "Ethical Management Policy" and "Code of Ethical Conduct", under which the relevant personnel are required to avoid such situations, and take the initiative to report to their immediate supervisor, head of the human resources unit or Board of Directors in the event that they are aware of or are facing a similar situation.	No major discrepancy
(5) Does the Company organize regular internal or external education and training programs for ethical management?	✓		(4) An evaluation and self-assessment of the design	No major

Assessment Item	Implementation Status			Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
			and effectiveness of implementation of the internal control system, including the accounting system, will be carried out annually based on the principle of ethical management, and amendments will be made where necessary. Internal auditors will conduct regular audits on compliance with the system, and accountants will also be commissioned to carry out internal control audits. (5) At present, the Company has not organized regular internal or external education and training programs for ethical management, but it advocates this to employees during its education and training for new staff.	discrepancy No major discrepancy
3. Implementation of the Whistleblowing System of the Company (1) Has the Company developed a specific whistleblowing and reward system and established convenient whistleblowing channels, and does it assign appropriate and dedicated personnel to deal with persons of whom the offenses are reported?	✓		(1) The Company has formulated the "Ethical Management Principles" and the "Operating Procedures and Behavioral Guidelines for Ethical Management". It encourages internal employees and external persons to report unethical or improper behavior, and offers a discretionary bonus according to the severity of the reported matter. Disciplinary action will be	No major discrepancy

Assessment Item	Implementation Status			Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
(2) Has the Company formulated standard operating procedures and the relevant non-disclosure mechanism with regard to the investigation of offenses reported? (3) Has the Company adopted any measures to protect the whistleblowers from being abused after reporting offenses?	✓ ✓		taken against any personnel who makes false or malicious allegations, and the personnel will be dismissed in serious cases. The Human Resources and Administration Department is the dedicated unit responsible for the planning and review of the whistleblowing system to ensure the effectiveness of its implementation. (2) The Company has established a specific whistleblowing system and it has set out clear operating procedures for the raising of grievances, the investigation, and the handling measures after the end of investigation. The identities of whistleblowers and content of the offenses are treated by the Company as confidential. (3) The Company should provide protection to the relevant personnel who reported the offense or of whom the offense is reported against, in the course of their participation in the investigation process, so as to ensure that they are not subject to unfair reprisals or treatment.	No major discrepancy No major discrepancy
4. Enhancing Information Disclosure	✓		The Company has disclosed its Ethical Management	No major

Assessment Item	Implementation Status			Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies
	Yes	No	Summary Description	
Did the Company disclose its Ethical Management Principles and effectiveness of its implementation on the Company's website and the Market Observation Post System?			Principles on the Company's website (http://www.egistec.com) and shall disclose the relevant information on the effectiveness of its implementation on the website or in the annual report.	discrepancy
5. If the Company has established its Ethical Management Principles based on "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies", please specify any discrepancies between the Principles and their implementation: The Company has formulated "Ethical Management Principles" and appointed the Human Resources and Administration Department as the dedicated unit to handle the revision, implementation, interpretation and advisory services related to these operating procedures and behavioral guidelines, register and file the content of notifications, and carry out other related operations, as well as oversee such implementation. In addition, the said unit submits reports to the Board of Directors as and when necessary, and there is no major discrepancy between its operations and the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies.				
6. Other important information to facilitate better understanding of the ethical management practices of the Company: (such as review and amendment of the Ethical Management Principles formulated by the Company, etc.) (1) The Company's implementation of ethical management is based on its compliance with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, regulations relevant to TWSE/GTSM listed companies, and other laws related to commercial practice. (2) The "Rules of Procedures for Board of Directors" has set out a system of recusal for directors in case of conflict of interest. Directors shall comment on and answer to proposals listed in board meetings that affect their personal interests or the interests of the juristic persons they are representing, and which may harm the interests of the Company, but they shall exercise recusal and not partake in the discussions and voting, and may not act on behalf of other directors in the exercise of their voting rights. (3) The Company has formulated the "Management Practices for the Prevention of Insider Trading" and "Operating Procedures for the Management of Significant Internal Information", under which directors, managers and employees shall not disclose significant internal information that they have knowledge of to others, and shall not make inquiries with persons who possess significant internal information				

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Discrepancies with the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and Reasons for the Discrepancies</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary Description</th></tr>
<tr><td colspan="5">of the Company, or collect significant internal information unrelated to their personal duties that has yet been disclosed by the Company. They may also not disclose significant internal information obtained outside of their performance of business activities that has yet been disclosed by the Company to others.
(4) The Company has always upheld the principle of integrity in its operations, and practices good management in adherence to the relevant laws and regulations, as well as the internal control system. It strictly forbids behavior that is unethical or in violation of the law, and it has a legal affairs unit that serves as a basis for consultation and validation whenever necessary.
(5) The Company has insured its directors, managers and key employees under directors and managers liability insurance (D&O), which can sufficiently reduce the risks to the Company arising from the performance of duties by the relevant personnel, and safeguard the rights and interests of investors.</td></tr>
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Fulfillment of Ethical Management and Adopting of Measures

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

(7) If the Company has formulated the Code of Corporate Governance and other relevant regulations, it should disclose the method of inquiry into these practices and regulations.

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

(8) Other important information that would enhance an understanding of the corporate governance practices of the Company that should be disclosed: Nil.

(9) Matters to be disclosed regarding the implementation of the internal control system

1. Statement on Internal Control: Please refer to Page 163 for further details.
2. If the Company has commissioned certified public accountants to perform examination of its internal control system, it should disclose the examination reports of the certified public accountants: Nil.

(10) Sanctions imposed on the Company and its internal personnel in accordance with the law, sanctions imposed by the Company against internal personnel who violated the regulations of the internal control system, as well as principal deficiencies, and the state of any efforts for improvements during the last fiscal year and the current fiscal year up to the date of publication of the annual report: No such situation.

(11) Important resolutions of shareholders' meetings and Board meetings during the last fiscal year and the current fiscal year up to the date of publication of the annual report

1. Important Resolutions of the Shareholders' Meeting in 2018

Important Resolutions of the Shareholders' Meeting		
Date of Shareholders' Meeting	Cause(s)	Outcome of the Resolution and Its Implementation
05/30/2018 General Meeting	Approved the 2017 Annual Business Report and Financial Statements of the Company	Approved the original proposal of the Board of Directors through voting.
	Approved the 2017 Profit Distribution Plan	Approved the original proposal of the Board of Directors through voting. Status of Implementation: Set the dividend record date as June 20, 2018, the distribution date as July 3, 2018, and the distribution of cash dividends of NTD 4.28333322 per share and cash bonus of NTD 301,462,080 to shareholders.

Important Resolutions of the Shareholders' Meeting		
Date of Shareholders' Meeting	Cause(s)	Outcome of the Resolution and Its Implementation
	Amendment of some clauses in the "Articles of Association" of the Company	Approved the original proposal of the Board of Directors through voting. Status of Implementation: The amendment has been disclosed on the Company's website on May 30, 2018 and the Company has operated following the amended Articles.
	Amendment to some clauses in "Operating Procedures for Acquisition or Disposal of Assets" of the Company	Approved the original proposal of the Board of Directors through voting. Status of Implementation: The amendment has been disclosed on the Company's website on May 30, 2018 and the Company has operated following the amended procedures.

2. Important Resolutions of the Board of Directors

Important Resolutions of the Board of Directors		
Date of Board Resolution	Cause(s)	Outcome of the Resolution
The 5th meeting of the 6th Board of Directors 03/05/2018	1. Ratification for the issuance of employee remuneration for 2016 and year-end bonus and performance bonus for 2017 to managers of the Company.	With the exception in discussion and voting of directors LO, SEN CHOU, LIN, GONG-YI, LEE, YI-PIN and RO, SHIH-HAO who exercised recusal legally, the proposal was unanimously passed by the rest of directors in attendance without objection.
	2. The annual salary increase recognition of managers in 2018.	With the exception in discussion and voting of directors LO, SEN CHOU, LIN, GONG-YI, LEE, YI-PIN and RO, SHIH-HAO who exercised recusal legally, the proposal was unanimously passed by the rest of directors in attendance without objection.
	3. 2017 Annual Business Report and Financial Statements of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	4. Issuance of the 2017 Statement on Internal Control System of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	5. Distribution plans of 2017 Employee Remuneration and Director Remuneration.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	6. 2017 Profit Distribution Plan.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	7. The implementation of the Comprehensive Business Plan by the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	8. Business Plan of 2018.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	9. 2018 Assessment of the Independence and Advisability and Renewal of Certified Public Accountants.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	10. Revision of the Company's Articles of Association.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.

Important Resolutions of the Board of Directors		
Date of Board Resolution	Cause(s)	Outcome of the Resolution
	11. Amendments to the part clauses in the Acquisition or Disposition of Asset Operations and Operation Approval Authorization of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	12. Formulation of the Method for Buying Back Shares and Transferring to Employees in 2018 of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	13. The Company expects to implement the Treasury Shares Method to buy back shares of the Company and transfer to employees.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	14. Handle the seal custodian of the related work of Endorsement Work Procedure through the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	15. The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	16. Rectification for the Company's appointment of deputy general manager of the project management office.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	17. Convening the Company's 2018 Annual General Meeting.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
The 6th meeting of the 6th Board of Directors (05/08/2018)	1. Consolidated financial statements of the Company for Q1 of 2018.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	2. Revision of the Company's Regulations for the First Share Repurchase and Transfer to Employees.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
The 7th Meeting of the 6th Board of Directors 05/30/2018	1. Determination of the ex-dividend record date of 2017 Earnings Distribution and adjustment of the dividend payout ratio.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
The 8th Meeting of the 6th Board of Directors (08/07/2018)	1. Consolidated financial statements of the Company for Q2 of 2018.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	2. The company's proposal to increase investment in AISTORM, INC.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	3. Formulation of Operating Procedures for Repurchase of Treasury Shares and Management of the Operating Procedures for Repurchase of Treasury Shares of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	4. Cancellation of the collected new restricted employee shares in 2017 and determination of the capital reduction record date.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	5. The company's issuance of performance bonus for the first half of 2018.	With the exception in voting of Director RO, SHIH-HAO who should exercise recusal, the proposal was unanimously passed without objection upon consultation with all directors available for voting by the Chairman.
	6. Director's remuneration distribution of the Company for 2017.	Apart from several directors whose remunerations are involved and did not participate in the discussion and voting, the proposal was unanimously passed without objection upon consultation with all other directors available for voting by the Chairman.

Important Resolutions of the Board of Directors		
Date of Board Resolution	Cause(s)	Outcome of the Resolution
The 9th Meeting of the 6th Board of Directors (09/18/2018)	1. Formulation of the Company's Regulations for the Second Share Repurchase and Transfer to Employees.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	2. Formulation of Buying Back Shares and Transferring to Employees by the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
The 10th meeting of the 6th Board of Directors (11/14/2018)	1. Consolidated financial statements of the Company for Q3 of 2018.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	2. The 2019 Audit Plan of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	3. Amendment of the "Regulations Governing Approval Authority" of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	4. Formulation of the Corporate Governance Best Practice Principles of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	5.Appointment and dismissal of the General Manager of the company	With the exception in voting of Director RO, SHIH-HAO who should exercise recusal, the proposal was unanimously passed without objection upon consultation with all directors available for voting by the Chairman.
	6. Appointment of managers.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	7. Adjustment of the appropriation ratio of the Company's employee remunerations for 2018.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	8.The company's proposal to invest in Igistec Co., Ltd.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	9.The company's proposal to invest in Sirius Wireless Pte Ltd.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
The 11th meeting of the 6th Board of Directors (01/14/2019)	1. The 2019 Operations Plan of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	2. The setting of the capital increase record date for the conversion of issuance of new shares in 2014 Annual Employee Stock Warrant issued by the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	3. Cancellation of the collected new restricted employee shares in 2017 and determination of the capital reduction record date.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	4. The lifting of non-competition restrictions on Managers	After Director LIN, GONG-YI explained the reason for serving in the invested company to other directors, the proposal was unanimously passed without objection upon consultation with all directors in attendance by the Chairman.
	5. Proposal to revise the Methods for Performance Evaluation of the Board of Directors of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.

Important Resolutions of the Board of Directors		
Date of Board Resolution	Cause(s)	Outcome of the Resolution
The 12th meeting of the 6th Board of Directors (03/14/2019)	1. The 2018 Annual Business Report and Financial Statements of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	2. The 2018 Employee remuneration and director remuneration distribution plans of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	3. The 2018 Earnings Distribution Plan of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	4. Issuance of the 2018 Statement on Internal Control System of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	5. Appointment and remunerations of the certified public accountants for 2019.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	6. Amendment to some clauses in "Operating Procedures for Acquisition or Disposal of Assets" of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	7. Amendment of the "Regulations Governing Approval Authority" of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	8. Formulation of the Standard Operating Procedures for Handling Directors' Requirement.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	9. Convening the Company's 2019 General Meeting.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	10. The lifting of non-competition restrictions on Managers.	Except Director LIN, GONG-YI avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	11. Allocation of year-end bonus and performance bonus and employee remunerations for 2018 to managers.	Directors LO, SEN CHOU, RO, SHIH-HAO, LIN, GONG-YI and LEE, YI-PIN avoided in this proposal. The proposal was presided over by the Independent Director WENG, MING-JENG and was unanimously passed without objection upon consultation with all directors in attendance by the Chairman.
	12. Dismissal of Chief Financial Officer of the Company.	Except Director LEE, YI-PIN avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	13. Review of newly recruited Chief Financial Officer.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.
	14. Appointment and dismissal of the Chief Technology Officer of the Company.	Except Director LIN, GONG-YI avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	15. Resignation of the Vice General Manager of the Company.	The proposal was unanimously passed without objections upon consultation with all directors in attendance by the Chairman.

Important Resolutions of the Board of Directors		
Date of Board Resolution	Cause(s)	Outcome of the Resolution
	16. Review of salary of the Chairman.	Director LO, SEN CHOU and Director RO, SHIH-HAO avoided in this proposal. The proposal was presided over by the Independent Director WENG, MING-JENG and was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.
	17. Allocation of treasury stocks to managers.	Except Director LEE, YI-PIN avoided in this proposal, the proposal was unanimously passed without objection upon consultation with all other directors in attendance by the Chairman.

(12) Main content of any important board resolution passed during the last fiscal year and the current fiscal year up to the date of publication of the annual report that is on record or stated in a written statement for which any director or supervisor has a dissenting opinion: No such situation.

(13) Summary of any resignation or dismissal of the Chairman, General Manager, Chief Accountant, Chief Financial Officer, Internal Audit Supervisor, and Research and Development Director of the Company in the last fiscal year and the current fiscal year up to the date of publication of the annual report:

Position	Name	Date of appointment	Date of dismissal	Reason for resignation or dismissal
General Manager	LO, SEN CHOU	August 1, 2007	December 1, 2018	After considering the Company's organization development and operational management needs, Chairman LO, SEN CHOU didn't continue to concurrently serve as the General Manager.
Chief Financial Officer	LEE, YI-PIN	September 1, 2016	April 9, 2019	Transferred to Sr. Deputy General Manager of General Management Office, to coordinate and manage the work of logistics.

5. Information about Fees to Certified Public Accountants

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

Name of Accounting Firm	Name of Certified Public Accountant		Intermediate Checks	Remarks
KPMG Taiwan	Steven Shih	Philip Tang	2018	

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

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

Unit: NTD'000

Name of Accounting Firm	Name of Certified Public Accountant	Audit Fees	Non-Audit Fees					Certified Public Accountant Intermediate Checks	Remarks
			System Design	Industrial and Commercial Registration	Human Resources	Others (Note)	Subtotal		
KPMG Taiwan	Steven Shih Philip Tang	3,300	-	-	-	428	3,728	2018	Other non-audit fees include expenses of tax consulting, impairment test for asset and R&D investment consulting.

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

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

(4) If the audit fees paid are lower than those for the previous year by 15% or more, the reduction in the amount of audit fees, the percentage of reduction and the reasons for reduction should be disclosed: No such situation.

6. Information about Change of Certified Public Accountants:

(1) Information about the Former Certified Public Accountants

<table>
<tr><td>Date of Change</td><td colspan="3">March 14, 2019</td></tr>
<tr><td>Reason(s) and Explanation for Change</td><td colspan="3">The change of the former Certified Public Accountants in Q1 2019 is mainly due to the internal adjustment of the accounting firm.</td></tr>
<tr><td rowspan="3">State if the Appointer or the Certified Public Accountant Terminates or Refuses the Appointment</td><td>Parties Involved / Situation</td><td>Certified Public Accountant</td><td>Appointer</td></tr>
<tr><td>Voluntary</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>Refusal of (the Renewal of) Appointment</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>Opinions and Reasons for Any Audit Reports Other than Those with an Unqualified Opinion Issued in the Last Two Fiscal Years</td><td colspan="3">Not applicable</td></tr>
<tr><td rowspan="6">Any Disagreements with the Issuer</td><td rowspan="4">Yes</td><td>-</td><td>Accounting Principles or</td></tr>
<tr><td>-</td><td>Disclosure of Financial</td></tr>
<tr><td>-</td><td>Scope and Steps of Audit</td></tr>
<tr><td>-</td><td>Others</td></tr>
<tr><td>Nil</td><td colspan="2">V</td></tr>
<tr><td colspan="3">Explanation: -</td></tr>
<tr><td>Other disclosures
(Disclosures under Point 4, Item 1, Paragraph 5, Article 10 of the Regulations)</td><td colspan="3">Nil</td></tr>
</table>

(2) Information about the New Certified Public Accountants

Name of Accounting Firm	KPMG Taiwan
Name of Certified Public Accountant	Accountants Steven Shih and Sonia Chang
Date of Appointment	March 14, 2019
Inquiries of Any Accounting Treatment Method for or Accounting Principles Applicable to Specific Transactions Undertaken by the Former Certified Public Accountants, or Opinion on the Financial Statements Issued by the Former Certified Public Accountants, and the Results of Such Inquiries	Not applicable
Written Opinions on Matters of Disagreement Between the New Certified Public Accountants and the Former Certified Public Accountants	Not applicable

7. Where the Company's Chairman, General Manager, or any Manager in charge of Financial or Accounting Matters has, in the Last Fiscal Year, Held a Position at the Accounting Firm of its Auditing Certified Public Accountants or at an Affiliated Enterprise of such Accounting Firm, the Name and Position of the Person, and the Period during which the Position was Held,

shall be Disclosed: No such situation.

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

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

Position	Name	2018		As of April 30, 2019	
		Number of shares held Increase (Decrease)	Pledged Shares Increase (Decrease)	Number of shares held Increase (Decrease)	Pledged Shares Increase (Decrease)
Chairman	Sen Chou Lo	626,262	480,000	-	-
Director	Chen-Jung Shih	-	-	-	-
Director	Ming-To Yu	-	-	-	-
Director/Chief Operating Officer and Chief Technology Officer	HEADWAY CAPITAL LIMITED	-	-	-	-
	Representative: Gong-Yi (Note 1)	(485,000)	(300,000)	(25,000)	-
Director/Sr. Deputy General Manager	HEADWAY CAPITAL LIMITED	-	-	-	-
	Representative: Yi-Pin Lee (Note 2)	68,400	-	(16,000)	-
Director/General Manager	Shih-Hao Ro (Note 3)	34,000	-	-	-
Independent Director	Ming-Jeng Weng	-	-	-	-
Independent Director	Ding-Jen Liu	-	-	-	-
Independent Director	Ta-Lun Huang	-	-	-	-
Deputy General Manager	Sky Su	-	-	-	-
Deputy General Manager	Han Chung Seok (Note 4)	-	-	-	-
Deputy General Manager	David Hwang	(26,000)	-	-	-
Deputy General Manager	Karen Chang	-	-	-	-
Deputy General Manager	Jimmy Hsu (Note 5)	7,000	-	-	-
Deputy General Manager	Kos Lin (Note 6)	-	-	-	-
Chief Technology Officer	Enlin Jiang (Note 7)	-	-	-	-
Chief Financial Officer	George Chang (Note 8)	-	-	-	-
Deputy Audit Manager	Iris Lee	-	-	(5,000)	-
Accounting Manager	Kathy Huang	(10,000)	-	-	-

Note 1: Appointed as the Chief Technology Officer on April 1, 2019
Note 2: Appointed as the Senior Deputy General Manager of General Management Office on March 14, 2019
Note 3: Appointed as the General Manager on December 1, 2018
Note 4: Dismissed on April 1, 2019
Note 5: Promoted on March 5, 2018
Note 6: Appointed on December 1, 2018
Note 7: Dismissed on April 1, 2019
Note 8: Appointed on April 9, 2019

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

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

April 19, 2019; Unit: Shares; %

Name	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in the Name of Others		Title, Name and Relationship of Any Related Party Among the Top 10 Shareholders, or the Spouse and Relatives Within the Second Degree of Kinship of Another		Remarks
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
LO, SEN CHOU	3,546,262	4.98	-	-	5,360,426	7.53	HEADWAY CAPITAL LIMITED and ORIENTAL GOLD HOLDINGS LIMITED	Director of HEADWAY CAPITAL LIMITED and ORIENTAL GOLD HOLDINGS LIMITED	-
HEADWAY CAPITAL LIMITED	2,700,000	3.79	-	-	-	-	LO, SEN CHOU	Director of ORIENTAL GOLD HOLDINGS LIMITED	-
Representative: Sen Chou Lo	3,546,262	4.98	-	-	5,360,426	7.53	ORIENTAL GOLD HOLDINGS LIMITED	Director of ORIENTAL GOLD HOLDINGS LIMITED	-
ORIENTAL GOLD HOLDINGS LIMITED	2,660,000	3.74	-	-	-	-	LO, SEN CHOU	Director of HEADWAY CAPITAL LIMITED	-
Representative: Sen Chou Lo	3,546,262	4.98	-	-	5,360,426	7.53	HEADWAY CAPITAL LIMITED	Director of HEADWAY CAPITAL LIMITED	-
HSBC acting as custodian for the special account of Point72, L.P.	1,161,000	1.63	-	-	-	-	-	-	-
EAGLE FRAME LIMITED	1,150,000	1.62	-	-	-	-	-	-	-
Representative: He Yanpu	232,348	0.33	-	-	-	-	-	-	-
The Taipei Branch of JP Morgan Chase Bank acting as custodian for the special investment account of PGIA General Global Equity Index Fund of PGIA Corporation	1,088,000	1.53	-	-	-	-	-	-	-
Kuan-Chou Lai	998,000	1.40	-	-	-	-	-	-	-

Name	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in the Name of Others		Title, Name and Relationship of Any Related Party Among the Top 10 Shareholders, or the Spouse and Relatives Within the Second Degree of Kinship of Another		Remarks
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
HSBC acting as custodian for the special account of Morgan Stanley Bank International Limited	987,000	1.39	-	-	-	-	-	-	-
Taipei Branch of JP Morgan Chase Bank acting as custodian for the special investment account of Vanguard Emerging Markets Equity Index Fund of Vanguard Group	970,100	1.36	-	-	-	-	-	-	-
TransGlobe Life Insurance Inc.	927,000	1.30	-	-	-	-	-	-	-

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

December 31, 2018 Unit: Thousand Shares; %

Name of Invested Enterprise	Investment by The Company		Investment by Directors, Supervisors, Managers, or Directly and Indirectly Controlled Companies		Total Investment	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Egis Inc.	25,848	100.00	-	-	25,848	100.00
Egis Technology (Japan) Inc.	5,840	100.00	-	-	5,840	100.00
Egis Tec USA Inc.	1,000	100.00	-	-	1,000	100.00
Egis Technology (Korea) Inc.	20	100.00	-	-	20	100.00
Tyrafos Technologies Co., Ltd.	5,265	65.00	-	-	5,265	65.00

IV. Financing Situation

1. Capital and Shares

(1) Source of Share Capital

1. Source of Share Capital

April 30, 2019; Unit: NTD; Shares

MM/YY	Issue Price (NTD)	Authorized Share Capital		Paid-in Share Capital		Remarks		
		Number of Shares (Shares)	Amount (NTD)	Number of Shares (Shares)	Amount (NTD)	Source of Share Capital	Those who Use Non-Cash Property to Offset Share Payment	Others
2007/12	10	100,000	1,000,000	100,000	1,000,000	Share capital acquired from founding assembly 1,000,000	-	Note 1
2008/01	10	12,900,000	129,000,000	12,900,000	129,000,000	Capital injection in cash 128,000,000	-	Note 2
2008/04	10	18,000,000	180,000,000	18,000,000	180,000,000	Capital injection through consolidation 51,000,000	-	Note 3
2008/05	43.27	60,000,000	600,000,000	36,050,000	360,500,000	Capital injection in cash 180,500,000	-	Note 4
2008/05	10	60,000,000	600,000,000	19,650,000	196,500,000	Capital reduction in cash 164,000,000	-	Note 5
2008/05	10	60,000,000	600,000,000	36,050,000	360,500,000	Capital injection by transfer of capital reserves 164,000,000	-	Note 6
2008/07	75.98	60,000,000	600,000,000	37,250,000	372,500,000	Capital injection in cash 12,000,000	-	Note 7
2008/07	23.46	60,000,000	600,000,000	49,629,856	496,298,560	Capital injection through consolidation 123,798,560	-	Note 8
2010/07	-	60,000,000	600,000,000	49,668,254	496,682,540	Employee stock warrants 383,980	-	Note 9
2013/12	-	60,000,000	600,000,000	52,249,254	522,492,540	Employee stock warrants 25,810,000	-	Note 10
2014/02	75	100,000,000	100,000,000	61,049,254	610,492,540	Capital injection in cash 88,000,000	-	Note 11
2014/04	-	100,000,000	100,000,000	62,044,254	620,442,540	Employee stock warrants 9,950,000		Note 12
2014/08	-	100,000,000	100,000,000	62,064,254	620,642,540	Employee stock warrants 200,000	-	Note 13
2014/12	-	100,000,000	100,000,000	62,149,254	621,492,540	Employee stock warrants 850,000	-	Note 14
2015/02	-	100,000,000	100,000,000	62,154,254	621,542,540	Employee stock warrants 50,000	-	Note 15
2015/08	-	100,000,000	100,000,000	62,178,254	621,782,540	Employee stock warrants 240,000	-	Note 16

MM/YY	Issue Price (NTD)	Authorized Share Capital		Paid-in Share Capital		Remarks		
		Number of Shares (Shares)	Amount (NTD)	Number of Shares (Shares)	Amount (NTD)	Source of Share Capital	Those who Use Non-Cash Property to Offset Share Payment	Others
2015/12	-	100,000,000	100,000,000	68,469,254	684,692,540	Capital injection in cash 62,910,000	-	Note 17
2016/03	-	100,000,000	100,000,000	68,764,254	687,642,540	Employee stock warrants 2,950,000	-	Note 18
2016/04	-	100,000,000	100,000,000	68,839,254	688,392,540	Employee stock warrants 750,000	-	Note 19
2017/03	- -	100,000,000	100,000,000	69,677,754	696,777,540	Employee stock warrants 838,500	-	Note 20
2017/08	-	100,000,000	100,000,000	69,847,754	698,477,540	Employee stock warrants 1,700,000	-	Note 21
2017/12	-	100,000,000	100,000,000	70,490,540	704,907,540	Employee stock warrants 710,000 Issuance of 5,720,000 new shares to restrict employee rights		Note 22
2018/03	-	100,000,000	100,000,000	70,980,254	709,802,540	Employee stock warrants 4,895,000		Note 23
2018/09	-	100,000,000	100,000,000	70,974,254	709,742,540	Cancellation of 60,000 new restricted employee shares		Note 24
2019/03	-	100,000,000	100,000,000	71,064,254	710,642,540	Employee stock warrants 930,000 Cancellation of 30,000 new restricted employee shares		Note 25

Note 1: Taipei City Government 12/26/2007 Fu Chan Yeh Shang Tzu No. 09693753210. Note 2: Taipei City Government 02/21/2008 Fu Chan Yeh Shang Tzu No. 09781401110.
Note 3: Taipei City Government 04/29/2008 Fu Chan Yeh Shang Tzu No. 09783518310. Note 4: Taipei City Government 06/03/2008 Fu Chan Yeh Shang Tzu No. 09784640010.
Note 5: Taipei City Government 06/18/2008 Fu Chan Yeh Shang Tzu No. 09785509410. Note 6: Taipei City Government 06/27/2008 Fu Chan Yeh Shang Tzu No. 09786113210.
Note 7: Taipei City Government 07/22/2008 Fu Chan Yeh Shang Tzu No. 09787050510. Note 8: Taipei City Government 08/26/2008 Fu Chan Yeh Shang Tzu No. 09787564510.
Note 9: Taipei City Government 10/29/2010 Fu Chan Yeh Shang Tzu No. 09986101620. Note 10: Ministry of Economic Affairs 01/02/2014 Ching Shou Shang Tzu No. 10201267500.
Note 11: Ministry of Economic Affairs 03/10/2014 Ching Shou Shang Tzu No. 10301036470. Note 12: Ministry of Economic Affairs 04/10/2014 Ching Shou Shang Tzu No. 10301060840.
Note 13: Ministry of Economic Affairs 09/03/2014 Ching Shou Shang Tzu No. 10301182950. Note 14: Ministry of Economic Affairs 12/30/2014 Ching Shou Shang Tzu No. 10301270280.
Note 15: Ministry of Economic Affairs 03/20/2015 Ching Shou Shang Tzu No. 10401042210. Note 16: Ministry of Economic Affairs 09/18/2015 Ching Shou Shang Tzu No. 10401180090.
Note 17: Ministry of Economic Affairs 01/11/2016 Ching Shou Shang Tzu No. 10401280730. Note 18: Ministry of Economic Affairs 04/01/2016 Ching Shou Shang Tzu No. 10501065020.
Note 19: Ministry of Economic Affairs 08/24/2016 Ching Shou Shang Tzu No. 10501209650. Note 20: Ministry of Economic Affairs 04/06/2017 Ching Shou Shang Tzu No. 10601043350.
Note 21: Ministry of Economic Affairs 09/01/2017 Ching Shou Shang Tzu No. 10601125800. Note 22: Ministry of Economic Affairs 12/14/2017 Ching Shou Shang Tzu No. 10601169060.
Note 23: Ministry of Economic Affairs 03/28/2018 Ching Shou Shang Tzu No. 10701030910. Note 24: Ministry of Economic Affairs 09/19/2018 Ching Shou Shang Tzu No. 10701116310.
Note 25: Ministry of Economic Affairs 03/07/2019 Ching Shou Shang Tzu No. 10801017040.

2. Type of Shares

April 19, 2019; Unit; Shares

Type of Shares	Authorized Share Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	Over-the-counter stock
Common stock	71,160,754	28,839,246	100,000,000	

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

(2) Shareholder Structure

April 19, 2019; Unit: Person; Shares; %

Shareholder Structure	Government Agencies	Financial Institutions	Other Juristic Persons	Individuals	Foreign Organizations and Foreigners	Total
Number of persons	3	65	58	7,616	100	7,842
Number of shares held	711,000	7,424,233	6,665,699	37,167,384	19,192,438	71,160,754
Shareholding ratio	1.00	10.44	9.37	52.22	26.97	100.00

(3) Distribution of Shareholders' Equity

April 19, 2019; Unit: Person; Shares; %

Shareholding Level	Number of Shareholders	Number of shares held	Shareholding Ratio
1 to 999	1,807	50,548	0.07
1,000 to 5,000	4,935	8,264,276	11.61
5,001 to 10,000	455	3,653,379	5.13
10,001 to 15,000	140	1,836,870	2.58
15,001 to 20,000	112	2,092,717	2.94
20,001 to 30,000	109	2,839,231	3.99
30,001 to 40,000	59	2,146,312	3.02
40,001 to 50,000	44	2,041,961	2.87
50,001 to 100,000	81	5,885,987	8.27
100,001 to 200,000	41	5,679,568	7.98
200,001 to 400,000	33	9,144,451	12.85
400,001 to 600,000	9	4,603,092	6.47
600,001 to 800,000	6	4,135,000	5.81
800,001 to 1,000,000	4	3,882,100	5.46
1,000,001 shares and more	7	14,905,262	20.95
Total	7,842	71,160,754	100.00

(4) List of Principal Shareholders

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

April 19, 2019; Unit: Shares; %

Shares / Name of Principal Shareholder	Number of shares held	Shareholding Ratio
Sen Chou Lo	3,546,262	4.98%
HEADWAY CAPITAL LIMITED	2,700,000	3.79%
ORIENTAL GOLD HOLDINGS LIMITED	2,660,000	3.74%
HSBC acting as custodian for the special account of Point72, L.P.	1,161,000	1.63%
EAGLE FRAME LIMITED	1,150,000	1.62%
The Taipei Branch of JP Morgan Chase Bank acting as custodian for the special investment account of PGIA General Global Equity Index Fund of PGIA Corporation	1,088,000	1.53%
Kuan-Chou Lai	998,000	1.40%
HSBC acting as custodian for the special account of Morgan Stanley Bank International Limited	987,000	1.39%
Taipei Branch of JP Morgan Chase Bank acting as custodian for the special investment account of Vanguard Emerging Markets Equity Index Fund of Vanguard Group	970,100	1.36%
TransGlobe Life Insurance Inc.	927,000	1.30%

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

Unit: NTD; Thousand Shares

Item \ Year			2017	2018	As of April 30 (Note 4)
Market price per share	Maximum		334.00	248.00	295.00
	Minimum		162.50	84.10	172.00
	Average		238.41	165.51	223.03
Net value per share	Before distribution		31.92	34.94	37.00
	After distribution		27.67	34.94	37.00
Earnings per share	Weighted average number of shares		70,568	70,290	68,216
	Earnings per share		8.50	9.62	1.96
Dividends per share	Cash dividends		4.25	8.10	
	Stock grants	Stock dividends from retained earnings	-	-	
		Stock dividends from capital reserves	-	-	
	Accumulated unpaid dividends		-	-	
Analysis of return on investment	Price-earnings ratio (Note 1)		28.04	17.20	
	Dividend yield (Note 2)		56.09	20.43	
	Cash dividend yield (Note 3)		1.78%	4.89%	

Note 1: Price-earnings ratio = Average closing price per share for the current year/Earnings per share
Note 2: Dividend yield = Average closing price per share for the current year/Cash dividends per share
Note 3: Cash dividend yield = Cash dividends per share/Average closing price per share for the current year
Note 4: Net value per share and earnings per share should be filled with the data audited by the accountants in the latest quarter as of the date of publication of the annual report; the rest should be filled with the information as of the end of the current year.

(6) Dividend Policy of the Company and Implementation Status

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

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

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

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

The surplus distribution in 2018 of the Company was formulated as shown in the following table by the Board of Directors on March 14, 2019. After the consideration and approval at the general meeting on June 18, 2019, then the ex-dividend record date will be determined by the Board of Directors.

2018 Earnings Distribution Statement

Unit: NTD

Item	Amount in Cash
Undistributed earnings at the beginning of period	335,033,924
Actuarial loss included in retained earnings	0
Undistributed earnings after adjustment	0
Net profit after tax for current period	670,790,776
Less: Appropriation to legal reserve	67,079,077
Appropriation to special reserve	48,867,235
Earnings available for distribution in current period	889,878,388
- Stock dividends (NTD - per share) - Cash dividends (NTD 8.10 per share)	0 554,844,464
Undistributed earnings at the end of period	335,033,924

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

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

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

The Board of Directors of the Company passed the resolution on non-distribution of dividends from the earnings of 2018 on March 14, 2019, and it has not announced the financial forecast information for 2019. Therefore, this is not applicable.

(8) Employee and Directors' Remunerations

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

If the Company makes a profit in the fiscal year (the so-called profit refers to the pre-tax profit before the deduction of remunerations payable to the employees and directors), it shall set aside no less than 5% of the profits for employee remunerations and no more than 1% for director remunerations. However, if the Company has accumulated losses (including the adjustment of undistributed earnings amount), the amount for offsetting should first be retained.
The employee remunerations stated above may be paid in the form of shares or cash, and the payee shall include the employees of subsidiaries who meet the conditions set by the Board of Directors. The director remunerations stated above may only be paid in the form of cash.
The two items above shall be handled according to the resolutions of the Board of Directors and reported at the shareholders meeting.

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

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

3. Remuneration distribution approved by the Board of Directors:

(1) The amount of any employee remunerations distributed in cash or stocks and remunerations for directors and supervisors. If there is any discrepancy

between that amount and the estimated figure for the fiscal year in which these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed:

The Company's Board of Directors passed to distribute according to the provisions of the Company Act and Article 24 of the Company's Articles of Association on March 14, 2019, among which 5% of the net profit before tax, that is, NTD 46,308,000 shall be set aside as employee remunerations and 1% of the net profit before tax, that is, NTD 8,972,000 shall be set aside as director remunerations; the remunerations shall be distributed in the form of cash. The difference with that of 2018 recognized in the financial statements is NTD 518, which is after taking into account of the adjusted difference of actual distribution under Articles of Association. The difference is subject to changes in the accounting estimates and is recorded in the year that the resolution of general meeting is made.

(2) The amount of employee remunerations distributed in stocks, and the percentage of the amount of the net profit after tax stated in the parent company only financial reports or individual financial reports for the current period and total employee remunerations: Not applicable.

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

Fiscal Year	2017	
	Resolution amount of the Board of Directors	Actual amount issued
Employee Remunerations	38,940,000	38,940,000
Directors Remuneration	7,780,000	7,780,000

There is no difference between the actual distribution of employee and director remunerations in 2017 and the resolution amount of the Board of Directors.

(9) The Company's share repurchase situation:

Item \ Number of Times	First time	Second time
Date of Board Resolution	03/05/2018	09/18/2018
Purpose of Repurchase	Transfer of shares to employees	Transfer of shares to employees
Period of Repurchase	From April 12, 2018 to May 4, 2018	From September 20, 2018 to November 18, 2018
Quantity and Categories of Repurchased Shares	600,000 shares	2,000,000 shares
Total Amount of Repurchased Shares	NTD 78,875,372	NTD 199,864,513
Average Repurchase Price Per Share	NTD 131.46	NTD 99.93
Quantity of Shares Canceled and Transferred	0 share	0 share
Cumulative Shares of the Company Held	600,000 shares	2,600,000 shares
Proportion of Cumulative Shares of the Company Held to Total Quantity of Shares Issued	0.84%	3.66%

2. The Company's Debt Repayment Situation: No such situation.

3. Special Shares Administration Situation: No such situation.

4. Overseas Depository Receipt Administration Situation: No such situation.

5. Employee Stock Warrants Administration Situation

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

March 31, 2019

Type of Employee Stock Warrant	2012 employee stock warrants		
Effective Date of Declaration	Not applicable		
Issue Date	December 24, 2012	July 02, 2013	November 14, 2013
Duration	Five years	Five years	Five years
Number of Units Issued (Note1)	661 units	492 units	345 units
Ratio of Shares Subscribed to Total Issued Shares	0.96%	0.71%	0.50%
Duration of Subscription	The execution of subscription rights by the warrant holder shall be in accordance with the specific content stipulated in the subscription rights contract, and the said rights shall be exercised before the expiration of the employee stock warrants.		
Method of Contract Performance	Delivery of newly issued shares		
Period and Percentage (%) in which Subscription is Restricted	They are divided into two forms: Where the warrant holder has made special contributions to the Company, the said warrant holder may immediately exercise the subscription rights upon being granted the employee stock warrants (stock warrants delivery date). The warrant holder may exercise the subscription rights based on the following timeline upon being granted the employee stock warrants. The warrant holder may subscribe 50% of shares after one year The warrant holder may subscribe 100% of shares after two years		
Number of Shares Received from Exercise of Subscription Rights	661,000 shares	437,000 shares	325,000 shares
Amount of Shares Subscribed	NTD 6,610,000	NTD 4,370,000	NTD 3,250,000
Number of Shares that have not been Subscribed (Note 2)	-	-	-
Subscription Price Per Share of Unsubscribed Shares	-	-	-
Number of Unsubscribed Shares As a Percentage of Total Issued Shares (%)	-	-	-
Effect on Shareholders' Equity	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents,	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents,	There is no significant effect on the dilution of the equity of shareholders with existing common stocks. This can attract and retain necessary talents,

	improve cohesion and bring positive benefits to the development of the Company.	improve cohesion and bring positive benefits to the development of the Company.	improve cohesion and bring positive benefits to the development of the Company.

Note 1: Every unit of stock warrant can subscribe for 1,000 shares of common stocks.
Note 2: The number of unsubscribed shares refers to the balance of issued shares after deducting the number of subscribed shares and the number of expired and canceled shares.

March 31, 2019

Type of Employee Stock Warrant	2013 employee stock warrants		2014 employee stock warrants	
Effective Date of Declaration	Not applicable		November 25, 2014	
Issue Date	November 14, 2013	March 14, 2014	December 18, 2014	November 03, 2015
Duration	Five years	Five years	Five years	Five years
Number of Units Issued (Note1)	1,410 units	403 units	1,592 units	408 units
Ratio of Shares Subscribed to Total Issued Shares	2.05%	0.59%	2.31%	0.59%
Duration of Subscription	The execution of subscription rights by the warrant holder shall be in accordance with the specific content stipulated in the subscription rights contract, and the said rights shall be exercised before the expiration of the employee stock warrants.		The execution of subscription rights by the warrant holder shall be in accordance with the specific content stipulated in the subscription rights contract, and the said rights shall be exercised before the expiration of the employee stock warrants.	
Method of Contract Performance	Delivery of newly issued shares		Delivery of newly issued shares	
Period and Percentage (%) in which Subscription is Restricted	They are divided into two forms: Where the warrant holder has made special contributions to the Company, the said warrant holder may immediately exercise the subscription rights upon being granted the employee stock warrants (stock warrants delivery date). The warrant holder may exercise the subscription rights based on the following timeline upon being granted the employee stock warrants. The warrant holder may subscribe 50% of shares after two years The warrant holder may subscribe 100% of shares after three years		The warrant holder may exercise his/her subscription rights based on the following periods and percentages granted by the stock warrants two years after the employee stock warrants are granted: (1) Two years after the employee stock warrants are granted, the warrant holder can subscribe an accumulated percentage of 50% of shares. (2) Three years after the employee stock warrants are granted, the warrant holder can subscribe an accumulated percentage of 100% of shares.	
Number of Shares Received from Exercise of Subscription Rights	1,390,000 shares	355,000 shares	1,167,000 shares	191,000 shares
Amount of Shares Subscribed	NTD 13,900,000	NTD 3,550,000	NTD 114,599,400	NTD 24,291,380
Number of Shares that have not been Subscribed (Note 2)	-	-	285,000 shares	197,000 shares
Number of Invalid Shares from Departure	-	15,000 shares	140,000 shares	20,000 shares
Subscription Price Per Share of Unsubscribed Shares	-	-	NTD 98.20	NTD 127.18
Number of Unsubscribed Shares As a Percentage of Total Issued Shares (%)	-	-	0.40%	0.28%

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

Note 1: Every unit of stock warrant can subscribe for 1,000 shares of common stocks.
Note 2: The number of unsubscribed shares refers to the balance of issued shares after deducting the number of subscribed shares and the number of expired and canceled shares.

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

March 31, 2019 Unit: Shares; NTD; %

<table>
<tr><th rowspan="2"></th><th rowspan="2">Position</th><th rowspan="2">Name</th><th rowspan="2">Number of Subscription Shares Acquired</th><th rowspan="2">Percentage of Number of Subscription Shares Acquired to Total Issued Shares Ratio</th><th colspan="4">Subscribed</th><th colspan="4">Not Yet Subscribed</th></tr>
<tr><th>Subscribed Number of Shares</th><th>Subscribed Subscription Shares Price</th><th>Subscribed Amount of Subscription Shares</th><th>Percentage of Number of Shares Subscribed to Total Issued Shares Ratio</th><th>Not Yet Subscribed Number of Shares</th><th>Shares Not Yet Subscribed Price</th><th>Not Yet Subscribed Amount of Subscription Shares</th><th>Percentage of Number of Shares Not Yet Subscribed to Total Issued Shares Ratio</th></tr>
<tr><td rowspan="13">Manager</td><td>Chairman</td><td>Sen Chou Lo</td><td rowspan="13">2,360,000</td><td rowspan="13">3.32</td><td rowspan="13">1,415,000
522,500
-</td><td rowspan="13">10.00
98.20
127.18</td><td rowspan="13">14,150,000
51,309,500
-</td><td rowspan="13">2.72</td><td rowspan="13">-
272,500
150,000</td><td rowspan="13">10.00
98.20
127.18</td><td rowspan="13">-
26,759,500
19,077,000</td><td rowspan="13">0.59</td></tr>
<tr><td>General Manager</td><td>Shih-Hao Ro</td></tr>
<tr><td>Chief Operating Officer</td><td>Gong-Yi Lin</td></tr>
<tr><td>Chief Financial Officer</td><td>Yi-Pin Lee</td></tr>
<tr><td>Chief Technology Officer</td><td>Enlin Jiang</td></tr>
<tr><td>Deputy General Manager</td><td>Sky Su</td></tr>
<tr><td>Deputy General Manager</td><td>David Hwang</td></tr>
<tr><td>Deputy General Manager</td><td>Han Chung Seok</td></tr>
<tr><td>Deputy General Manager</td><td>Karen Chang</td></tr>
<tr><td>Deputy General Manager</td><td>Jimmy Hsu</td></tr>
<tr><td>Deputy General Manager</td><td>Kos Lin</td></tr>
<tr><td>Accounting Manager</td><td>Kathy Huang</td></tr>
<tr><td>Deputy Audit Manager</td><td>Iris Lee</td></tr>
<tr><td rowspan="6">Employee</td><td>Manager</td><td>Leeann Shieh</td><td rowspan="6">1,016,000</td><td rowspan="6">1.43</td><td rowspan="6">876,000
140,000
-</td><td rowspan="6">10.00
98.20
127.18</td><td rowspan="6">8,760,000
13,748,000
-</td><td rowspan="6">1.43</td><td rowspan="6">-
-
-</td><td rowspan="6">10.00
98.20
127.18</td><td rowspan="6">-
-
-</td><td rowspan="6">0.00</td></tr>
<tr><td>Sr. Manager</td><td>Justin Liao</td></tr>
<tr><td>Associate Chief Engineer</td><td>Kurt Lee</td></tr>
<tr><td>Sales Manager</td><td>Aaron Lee</td></tr>
<tr><td>Manager</td><td>Vincent Kao</td></tr>
<tr><td>Technology Manager</td><td>Jacky Lee</td></tr>
</table>

	Sr. Manager	Simon Chang											
	Sr. Manager	Andrew Ling											
	Project Manager	Matt Wang											
	Associate Chief Engineer	Dragon Fu											

6. New Restricted Employee Shares Administration Situation:

(1) New Restricted Employee Shares Administration Situation

March 31, 2019

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

Type of new restricted employee shares (Note 1)	The first time (period) New restricted employee shares
	performance has met the performance targets set by the Company in the year prior to the expiration date, and who have made due contributions during the said period will receive 1/3 of the shares. (3) Employees who are still serving the Company two years after the expiration date of distributing new restricted employee shares, whose personal performance has met the performance targets set by the Company in the year prior to the expiration date, and who have made due contributions during the said period will receive 1/3 of the shares. 3. According to the Company's Measures for the Management of Performance Appraisal, the results of performance appraisal are rated as A (excellent), B (above average), C (average) and D (need to improve). The aforesaid personal performance-based vesting condition refers to the personal performance meeting the targeted performance of the Company, and the performance result must be A (excellence) or B (above average), etc. It is equal to achieve the contribution degree of the position when meeting result of the performance.
Restricted right of new restricted employee shares	1. Employees are not allowed to sell, pledge, transfer, give, pledge or otherwise dispose of the said new restricted employee shares after the allotment of new shares and before the fulfillment of the vesting conditions. 2.The attendance, proposal, speech, voting and voting rights, etc. related to the shareholders meeting shall be carried out in accordance with the custodial trust contract. 3. In addition to the aforementioned trust provisions, with regard to the new restricted employee shares allotted to employees based on this Regulations, prior to the fulfillment of vesting conditions, the other rights, which include but are not limited to, the rights to the allotment of dividends, bonuses and capital reserve, subscription rights and voting rights for cash injection, shall be the same as the ordinary shares issued by the Company, without any restrictions imposed.
Custody situation of new restricted employee shares	Taishin International Commercial Bank conducts trust custody operations
After employees obtain or subscribe new shares, the handling method not achieving vesting conditions	All the shares that have not reached the vesting conditions are recovered by the company and are cancelled.

Type of new restricted employee shares (Note 1)	The first time (period) New restricted employee shares
New shares to restrict employees' right have collected or purchased Number of shares	9,000
Number of new shares to relieve restricted right	304,300
Number of new shares to relieve restricted right	258,700
Percentage of new shares that have not relieved restricted shares to the total shares issued (%)	0.36%
Impact on shareholder rights.	1. If all vesting conditions are met, the estimated maximum possible expendable amount is approximately NTD 195,000,000. The maximum possible expendable amounts per year for 2017-2020 is approximately NTD 70,005,000, NTD 84,329,000, NTD 32,666,000 and NTD 8,000,000, respectively; the maximum possible reduction amount of earnings per share of the Company is NTD 1.01, NTD 1.21, NTD 0.47 and NTD 0.12, respectively. 2. The Company estimates that revenue and profit will continue to grow in the next few years. Therefore, the overall assessment has limited information on the dilution of the Company's earnings per share for the next few years, but there should be no significant impact on the existing shareholders' equity.

(2) Managers obtaining new restricted employee shares and the name as well as situation of the top 10 employees obtaining new shares

March 31, 2019

	Position	Name	Number of new restricted employee shares obtained	Ratio of number of new restricted employee shares obtained to total shares issued (Note 2)	Has relieved restricted right				Failed to relieved restricted right			
					Number of shares have relieved restriction	Issue Price	Issue in Cash	Ratio of number of shares have relieved restriction to total shares issued (Note 2)	Number of shares failed to relieve restriction	Issue Price	Issue in Cash	Ratio of number of shares failed to relieve restriction to total shares issued (Note 2)
Manager	Chief Financial Officer	Yi-Pin Lee	365,000	0.51%	228,300	0	0	0.32%	136,700	0	0	0.19%
	General Manager	Shih-Hao Ro										
	Deputy General Manager	David Hwang										
	Deputy General Manager	Jimmy Hsu										
	Accounting Manager	Kathy Huang										
Employee (Note 1)	Associate Chief Engineer	Jimmy Tseng	105,000	0.15%	45,000	0	0	0.06%	60,000	0	0	0.08%
	Senior Manager	Tony Lo										
	Senior Manager	WJ Lee										
	Senior Technology Manager	Phoebe Chiu										
	Sales Manager	Sandy Chiu										
	Technology Manager	Gary Wong										
	Technology Manager	CH Han										
	Technology Manager	Sandra Chen										
	Associate Chief Engineer	Dragon Fu										
	Technology Manager	Edward Lo										

Note 1: Top 10 employees obtaining new restricted employee shares refer to the employees other than managers.
Note 2: The total number of issued shares refers to the number of shares listed in the change registration data of the Ministry of Economic Affairs.

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

(1) Any issuance of new shares in connection with a completed merger or acquisition or with the acquisition of any other company's shares during the last fiscal year or during the current fiscal year up to the date of publication of the annual report: No such

situation.

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

8. Status of Implementation of the Funds Utilization Plan

(1) Status of implementation of each public issuance or private placement of securities that has yet been completed as of the quarter preceding the date of publication of the annual report: Not applicable.

(2) Public issuances or private placements of securities that have been completed in the last three fiscal years but have not yet fully yielded the planned benefits: Not applicable.

(3) The Company has not conducted any issuance of new shares or corporate bonds in connection with a merger or acquisition or with the acquisition of any other company's shares during the last three fiscal years or during the current fiscal year up to the date of publication of the annual report, and the situation of the previous capital injection in cash is hereby explained as follows:

1. Content of Plan

(1) Date of approval by competent authority and document number: August 28, 2015; Cheng Kui Shen Tzu No. 1040024519.

(2) Total funds required for this Plan: NTD 723,465,000.

(3) Source of funds: Issuance of 6,291,000 new shares for the purpose of capital injection in cash; the issuance price per share is NTD 115, and the total amount raised is NTD 723,465,000.

(4) Projects under Funds Utilization Plan and projected progress of funds utilization:

Unit: NTD'000

Project(s) under the Plan	Projected Completion Date	Total Funds Required	Projected Progress of Funds Utilization
			Fourth quarter of 2015
Replenishment of working capital	Fourth quarter of 2015	723,465	723,465

(1) Projected Benefits

This capital injection in cash is conducted for the purpose of replenishing the working capital. In addition to increasing the percentage of its own capital and strengthening the financial structure, the Company is able to acquire long-term and stable funds that will help reduce operational risk, improve the competitiveness of business development, and enable funds planning required for the expansion of the future scale of operations.

(2) Any changes to the plan, the source of funds and the manner of their utilization, the reason(s) for any changes to the plan, the benefits yielded by the funds before and after any change(s) to the plan, the date on which the change(s) to the plan was reported at a shareholders' meeting: Not applicable.

(3) The date on which the aforementioned information was uploaded to the website specified by the Securities and Futures Bureau for reporting of information: Not applicable.

2. Status of Implementation

Unit: NTD'000

Project(s) Under the Plan	Status of Implementation		Fourth quarter of 2015	Progress Ahead or Behind Schedule, Reason(s) and Improvement Plan
Replenishment of working capital	Amount Required for Use	Projected	723,465	This plan has been fully implemented according to schedule.
		Actual	723,465	
	Implementation progress	Projected	100%	
		Actual	100%	

3. Performance of Benefits Assessment

The Company has completed the fund raising plan involving approximately NTD 723,465,000 on December 21, 2015, leading to an increase of NTD 723,465,000 in working capital after the raised funds are fully acquired. In addition to increasing the percentage of its own capital and strengthening the financial structure, the Company is able to acquire long-term and stable funds that will help reduce operational risk, improve the competitiveness of business development, and enable funds planning required for the expansion of the future operations.

5. Operational Highlights

1. Content of Business

(1) Scope of Business

1. Principal Business Content Operated

(1) I301010 Information Software Service Industry

(2) I301020 Document Processing Service Industry

(3) I301030 Electronic Information Supply Service Industry

(4) I501010 Product Design Industry

(5) F401010 International Trade Industry

(6) ZZ99999 Besides those that are subject to approval, all businesses that are not prohibited or restricted by business law shall be operated

2. The Proportion of Primary Business Products (Service)

Unit: NTD ’000

Fiscal Year / Product Items	2017		2018	
	Net Operating Revenue	Percentage (%)	Net Operating Revenue	Percentage (%)
Biometric Recognition Sensing IC and Its Applications	4,724,571	100%	5,903,424	100%
Data Security and Protection and Its Applications	3,969	0%	4,723	0%
Revenue from Technical Services	3,368	0%	1,186	0%
Total	4,731,908	100%	5,909,333	100%

3. Current Products (Services) Item

The Company is dedicated to the design, development, manufacture, and sale of the biometric recognition sensor chips. Besides the passive capacitive fingerprint recognition chips’ a key product of the Company, the Company plans to introduce optical fingerprint recognition chips, 3D Depth Map sensing chips and other products this year. Currently, the main products of the Company include:

(1) The sensing solution of passive capacitive fingerprint recognition

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

(2) In-display fingerprint recognition sensing solution

As smartphones trend moves towards full screen, the Company launches optical fingerprint recognition sensing chip series, which can be used for fingerprint sensing on OLED screens without using fingerprint sensing buttons, increasing screen-to-body ratio and optimizing user experience.

(3) 3D Sensing Solution

The Company is expected to launch 3D Depth Map sensing technology solution based on Time of Flight (ToF) and provide a cost-effective chip solution that will help the customers quickly apply it to the products and accelerate the time to the market.

(2). Industry Profile

1. Current State of the Industry and Future Developments

Biometric recognition was originally used for public security applications such as resident identification and crime investigation led by the government departments. It gradually found its way to the daily life of consumers, such as fingerprint machine, fingerprint disc, fingerprint mouse, fingerprint keyboard, fingerprint lock, fingerprint time-recorder, and fingerprint access control system, and later the notebook became its dominant market. In the early years following the introduction of fingerprint recognition, the market of fingerprint recognition is small without any signs of popularization. Yet fingerprint recognition soon became a much-talked-about topic in the marketplace after it was used on the smartphone - iPhone 5S. Cell phones with fingerprint recognition failed to become prevalent in the past possibly for the following reasons. Firstly, practicability. On the one hand, for general users, power-on password setting protects privacy to some extent, and the demand for fingerprint recognition for a better security is limited. On the other hand, power-on password is more convenient for users when the recognition speed is slow and accuracy is not high. Secondly, accountability. Who will be responsible for pseudo transaction if all of our transactions are verified through fingerprint? Finally, cost. Before the fingerprint recognition is verified to be applicable, the cost that arises out of the fingerprint recognition sensor will cause an extra burden for users. Therefore, given the budget is the same, users will preferentially choose the cellphones with a higher resolution, or carrying a much useful camera module for a better photography experience. As cellphones become more similar to the personal laptop in functions and usage scenarios, resulting in behaviors changing, the environment for cellphones with fingerprint recognition has gradually become mature.

In September 2013, after Apple launched the iPhone 5S that incorporated the fingerprint recognition chip, cellphone companies worldwide began to launch phone models with fingerprint recognition functions, in which fingerprint recognition ICs playing an indispensable role. In addition, other than using fingerprint recognition to power on the phone, the iPhone 5S also activates identification function when the user purchases Apps or music. For the first time, Samsung "Galaxy S5" worked with PayPal, allowing Galaxy S5 users the ability to purchase from any store that supports PayPal payments just by using fingerprint identification. In September 2014, Apple announced the iPhone 6 series, which further developed ApplePay, a mobile electronic wallet, in addition to fingerprint recognition functions. Contactless payments could be made on the iPhone 6, iPhone 6 Plus, or Apple Watch through the built-in NFC (Near Field Communication technology), and users can even use fingerprint recognition to pay directly to online shopping websites with just one touch. In March 2015, Samsung announced the "Galaxy S6", continuing to incorporate fingerprint recognition, and further launched "Samsung Pay". This shows that the development trend of electronic payments will become another important motivation for the growing demand of mobile phones with fingerprint recognition functions.

With the development of technology and changes in the industry, the world's major technology companies have successively ventured into the field of developing digital wallets and mobile payments. Google Wallet, eBay, PayPal, Amazon, Apple, and Samsung etc. utilize mobile payment services that require fingerprint recognition. The process of fingerprint storage, encryption, and verification takes place within the TrustZone chip to ensure that the data is inaccessible by a third-party. This largely increases the level of security and repositions the role of smartphones in the area of electronic commerce. Handheld smart devices have thus become an important platform for electronic commerce. In 2015, Apple negotiated with Mainland e-commerce Alibaba on Alipay support to Apple Touch ID; Google negotiated with many companies to add a "buy" function key in its website so that the buyers can complete shopping all at once; The mobile payment platform (TSM) jointly established by top 5 Taiwan telecommunication carriers with Taipei EasyCard Corporation would start to offer Over the Air (OTA) cellphone payment service, so it is obvious that fingerprint recognition is just the ticket for entering the field of mobile payment. Mobile payment's safety and more convenient usage environment for people will be the application of fingerprint recognition in the future.

With the development of the smartphones and the popularization of the fingerprint recognition in the future, the application of fingerprint recognition and smartphone will be more tightly integrated. The Company is gearing towards smartphones as our main business activity currently while watching closely the changes of the trend in the future to integrate the past experience and grasp the market opportunities. Furthermore, the Company is currently a member of the Fast IDentity Online (FIDO) Alliance International Standards Association and has also actively participated in various meetings conducted by the Authentication Standards Setting Association. The Company also hopes that by joining the FIDO Alliance, the chips manufactured by the Company will be entering into various new fields of application. Therefore, from the perspective of the development trend, the Company locates itself more than a chip provider; rather, it actively joins in FIDO and other international mobile payment alliances, involving in the making of the game rules and contributing its technologies and experience.

Besides the robust development of the multiple applications in the fingerprint recognition, in 2017, Apple launched iPhone X with a newly-added 3D face recognition unlocking and payment function which sparked the trend of face recognition and, meanwhile, introducing to the market another biometric recognition. Looking ahead, for the application scenario such as finance and others which requires a high security bar, it is possible that two alternatives out of face recognition, fingerprint recognition, and password will exist together. Based on the technology and market position for fingerprint recognition, the Company will solicit more partners and continue to get involved in all kinds of advanced biometric recognition fields to lead the technology and consolidate our market competitiveness.

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

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

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

The main business activity of midstream IC wafer plants is to transform the well-designed circuits into the chips, using precise equipment, complex processes, and strict quality control.

The main business activity of downstream IC packing and testing factories involves cutting, packaging, testing, and packing of the manufactured IC wafers, to obtain the final IC product.

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

3. Various Development Trends of the Product

(1) The Application and R&D of Biometric Recognition Technology

Biometric recognition technology is to calculate, measure, and verify the identity of a person through physiological and behavioral characteristics of the human body. Biometric recognition is not a new concept and it has been under development for years. As mentioned above, the fingerprint technology of biometric recognition had been widely applied on resident recognition, crime investigation, customs exit/entry control, and opening of various digital devices and so on. But besides application in the crime prevention and crime search, due to the robust growth of the Internet of Things and demand of mobile payment, the biometric recognition technology has recently found its way to other consumer electronics and Internet of Things and has marched on to the public security. Various related products of biometric recognition have emerged and the production value has begun to grow rapidly; related technologies are also diversified and thriving. They have become popularized in the daily life of the general public.

Biometric recognition technology differs from conventional authentication technology based on the fact that it is less easy to be recorded, embezzled, cracked, or counterfeited, so users do not need to change the password frequently for security purpose, thus decreasing the usage inconvenience. For the growing problem of information security, biometric recognition is the only hope for a successful solution.

Biometric recognition uses the innate and unique physiological and behavioral characteristics of the human body: Such as human fingerprint, face, voice, iris, retina, and signature and it connects the system through various corresponding input and output screens, analyzing and judging all the photoelectric information and creature characteristics to identify the different users through various algorithms. Compared with the conventional recognition technology, such as user's password, name, and IC card, which will not identify the users again once the password is forgotten or the card is stolen, and thus bring inconvenience to the users; the characteristic of the biometric recognition lies in that users do not need to remember or bring it, so in this way, users do not have to consider that it can be stolen. Moreover, it has the born and unique characteristic of the human body that will improve the security and credibility of identification.

According to the ABI Research report, global industries will increase investment in various identification and authentication technologies in response to rising security requirements, and the estimated global biometric market output will exceed 10 billion dollars by 2021, so the robust growth of biometric recognition application can be expected in the future.

But biometric recognition is complicated due to the fact that there are various different types, fields, and levels, so here's a brief description on the application and development status of various biometric recognition technologies:

A. Capacitive fingerprint recognition

With the popularization of the fingerprint recognition on smartphones, the capacitive fingerprint recognition has so far been the most mature one and used by the largest group of people. It uses an exclusive chip to detect the sensing capacitance changes of the crest and trough when the chip contacts the fingers, and the advanced algorithm will be applied to find out the characteristics to identify different users. The capacitive fingerprint recognition has advantages of small-sized components, low power consumption, and being applicable to different environments, so it is widely used in different levels.

The capacitive fingerprint recognition is currently widely applied on notebooks, smartphones, and tablets. Apple comes to mind as the most representative one. In September 2013, Apple started to apply touch fingerprint sensor to iPhones, and after that, major Android cellphone makers including Samsung and Huawei rapidly joined in to make it the standard configuration for all smartphones.

B. Optical Fingerprint Recognition

The development of optical fingerprint sensors occurred much earlier than the capacitive ones. Its recognition technology forms a fingerprint image through the ray of light and records the fingerprint characteristics using the source of the light, lens, and photoreceptive components. With low cost and high durability, it is widely used in the scenarios of airport checking and enterprise attendance. The disadvantage is that it is big in size and difficult to be applied in electronic devices such as cellphones which are committed to being lighter, thinner and smaller. However, the enthusiasms for the development of optical finger print recognition is soaring as full-screen cellphones have become a leading trend, and in-display optical fingerprint sensor can be applied under the cellphone screen.

C. Ultrasonic fingerprint recognition

Its technology uses the ultrasonic wave to make a 3D scan to detect the fingerprint protuberance, sweat pore position for identification. The ultrasonic wave can penetrate the materials of glass, steel, and plastic, making the fingerprint hide inside the cellphone shell and its identification will not be affected by foreign matters such as rainwater, sweat, and oil. Optical fingerprint recognition detects the change that comes from the reflection contrast ratio of fingerprint light. Instead, ultrasonic wave detects acoustics resistance of sound wave, so ultrasonic fingerprint is not that sensitive to the blur on the fingerprints, but it cannot penetrate the air gap or the soft materials. Due to the popularity of the full-screen cellphones, the application of ultrasonic fingerprint recognition on the screen of the cellphones will also appear in the industry in 2019.

D. Face Recognition

The process of facial recognition from academic research to commercialization has only been about 10 years. Compared with fingerprint recognition who has entered the mature development and application phase, there is still considerable room for improvement for facial recognition. The face recognition technology in the past was mostly based on 2D recognition of images, which has long been seen in many application scenarios such as corporate attendance, access control, public security and community websites, etc.

With the recent arrival of Apple's iPhone X, its built-in facial recognition feature uses 3D depth-of-field ranging technology and has sparked heated discussions. However, how to upgrade 2D image recognition to integrating depth of field and 3D models, while increasing recognition reliability, such as preventing the loophole of recognition through the use of photographs, to the point that successful match is impossible even for two real persons with similar appearances, will influence whether 3D facial recognition can be further applied to emerging applications such as smartphones, financial security and mobile payment, etc.

E. Iris Recognition

The iris is a thin film located in front of the eyeball. It does not change after the age of one year to one and a half years. It is therefore one of the very unique physiological characteristics of humans. Iris recognition technology has been developed for quite a few years, but this recognition technology has become a hot topic due to its incorporation into Samsung Galaxy Note 7 phones. The principle of iris recognition is to capture the positions of the relevant features such as fibrous tissue, contraction groove, color, and width through the iris image scanning device. The advantage is that the iris is unique and difficult to be copied and imitated. As compared to the fingerprint and face, the iris has much more feature points, thus it is the biometric technology with the highest accuracy and safety and the lowest error rate.

F. Vein Recognition

The principle of vein recognition technology is to use the veins layout of human's palms or fingers as sample and irradiate hemoglobin in veins with infrared rays to make the identification. Thanks to its inexorable advantages such as recognition with living body, low False Rejection Rate (FRR), and hard-to-replicate vein patterns, finger vein ATM has a market share of over 80% in Japan. Therefore, the financial sector will likely become the biggest market for vein recognition.

G. ECG Recognition

ECG characteristics have both relative stability and individual differences as the heart muscle of humans differ, making ECG recognition a new generation of ID recognition technology.

H. Handwriting Recognition

Handwriting is unique to every individual and will not change easily when one grows up, making it a viable biometric identification approach. Considering protection of privacy in biometrics, handwriting recognition has been given great emphasis due to its inexorable advantages such as low cost and widespread use in the financial industry.

(2) The Research and Development of New Biometric Technology

A. Optical Fingerprint Recognition

The demands for burying fingerprint recognition module under the phone screen will quickly boom as cellphones trend move towards full screen, pushing optical fingerprint recognition to the R&D list of the Company. The Company has made this announcement at 2018 MWC.

B. Time of Flight (ToF) 3D Depth Map Sensing Technology

The Company has already launched research and development of Time of Flight (ToF) 3D Depth Map sensing technology in a bid to deliver a more cost-effective chip solution than existing technologies. This solution is expected to introduce body measurement and Augmented Reality (AR) applications in the real world for customers.

(3) Future Growth

In order to expand the market territory, the Company will continue to deepen its efforts in both South Korea and Mainland China, and will further strengthen the mainland market layout. In view of the purchasing strategies of manufacturers in the Mainland China, we hope to maintain more than two suppliers in principle. We will use the foundation we have laid down to meet the cost, patent and algorithmic advantages of our products, deepen our supply chain into the mainland mobile phone factory, and actively strive for customers of brand mobile phone manufacturers. At the same time, we will cooperate with module manufacturers with technical and customer channels to expand the company's business penetration level.

In the aspect of product technology, besides continuing to provide more up-to-the-minute products in the existing field of fingerprint recognition chips and incorporating more diversified biometric recognition technologies, the Company will also strive to develop a variety of software- and hardware-integrated solutions to improve end-user experience and enhance the value-added features of the customers' products in the future. For example, the Swipe Enroll function that the Company introduced in 2018 provides innovative swipe-type fingerprint registration, which can capture 20 fingerprint images in a single swipe. Compared with the previous push-type registration where a user must press his/her finger up to 20 times in order to capture the complete fingerprint features, the swipe-type fingerprint registration has not only significantly improved user experience, but has also maintained excellent fingerprint recognition performance; it has been adopted by major customers in newly marketed flagship mobile phones.

In the aspect of product application, besides the continuous efforts to expand the application of fingerprints and various biometric recognition technologies in smartphones, mobile devices and wearable electronic products etc., the Company will also strive to expand such application in the following areas:

A. Financial Payments

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

Furthermore, the Company is currently a Board member of the Fast IDentity Online (FIDO) Alliance International Standards Association and actively participate in various meetings conducted by the Authentication Standards Setting Association. The Company also hopes that by joining the FIDO Alliance, the chips manufactured by the Company will enter various new fields of application.

B. Smart Cities

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

C. Other Applications

The field of application of fingerprint recognition is not only limited to high-security-level anti-counterfeit security mechanisms. Fingerprint recognition can also serve as personal privacy protection functions, such as: password management of various accounts, database management, mailbox management, etc. of personal electronic devices. Furthermore, the absolute one-to-one feature of fingerprint recognition makes it even more suitable for incorporation into all kinds of consumer electronics products, providing fast and convenient personalized management functions for one’s daily life. These include: all devices that provide for personal needs such as automotive electronics and smart TV, etc.

4. Competitive Situation

In the aspect of supply, Fingerprint Cards AB (FPC), a large Swedish biometric sensor manufacturer, and Synaptics, a large American manufacturer, experienced a tumble in 2018 compared with their earnings in 2017, and a sharp fall in average sales price (ASP) and operating margin, as a result of failure to grasp the in-display optical fingerprint sensor technology.

Goodix, a Shenzhen-based chip provider invested by MediaTek, however, reported a surge in both revenue and gross profit margin in 2018 and has replaced FPC as the world’s largest fingerprint recognition sensor supplier, after shifting its product focus to in-display optical fingerprint sensors.

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

In terms of patents, large manufacturers in Europe and the United States have advantages as pioneers, they have only grabbed most of the market shares, but more importantly, they also hold many patents. In the future, there will be more patent wars in the field of fingerprint recognition. The Company has deeply researched the fingerprint recognition industry for many years; adopting a passive capacitive-sensing principle in the design of fingerprint recognition chips, having autonomous algorithms and more than hundreds of patents in the fingerprint recognition industry, continuously investing in the research and development of advanced technologies and patents, and strengthening the advantages in technical attack and defense.

1. Regarding the suppliers and funds, because the size of the fingerprint identification chip must be able to detect fingerprints, it can be imagined that the area of the chip needs to be very large resulting in a product line that consumes a large number of wafers. When the production capacity is tight, the relationship with the foundry is essential. In addition, because fingerprint recognition chips consumes a large amount of wafer, if you want to reserve production capacity you also need a large amount of deposit which also tests the capacity of capital turnover of the wafer design factories. The Company continues to maintain a good cooperative relationship with suppliers and at the same time improve its own profitability and maintain flexible use of funds.
2. Technology Level and Research and Development Status of the Business

   The fingerprint recognition industry involves the combination of hardware and software and needs to capture clear images in an extremely short period of time, while overcoming all kinds of situations that may occur in users' fingers, such as wet fingers and sensor noise, etc. After capturing the image, the image has to be reconstructed. Then it will go through a series of analyses and calculations of fingerprints, and analyze and compare the eigenvalue by using an algorithm. Therefore, the security and convenience of the application must be taken into consideration resulting in needing cross-domain knowledge and skills. The IC design business has a high technical barrier and requires years of cumulative experience. Since the inception of the Company, we have been committed to developing proprietary technologies. At the same time, we have accumulated over

200 patents to protect our intellectual property rights. As we have developed the technology over a long time and refined our algorithms, we are able to adjust application end products that best suit customer needs in terms of security and convenience.

Like the development process of many consumer electronic products, the standards of some international organizations have evolved with the demands and improvements in technology. For example, FIDO (Fast IDentity Online) develops an identity standard. Therefore, the Company want to focus on the impulse of standards development. At present, it is a board member of the FIDO Alliance International Standards Association, and it also actively joins various meetings held by the Authentication Standards Setting Association. The Company hopes that by joining the FIDO Alliance, the chips manufactured by the Company will be allowed into various new fields of application.

(3). General Situation of Technology and Research

1. Research and Development Personnel and their Educational Background & Experience

Unit: People

Fiscal Year / Education Level		2017		2018		March 31, 2019	
		Number of persons	%	Number of persons	%	Number of persons	%
Education Level Distribution	PhD	8	4.94%	8	3.72%	7	3.07%
	Postgraduate	56	34.57%	82	38.14%	86	37.72%
	Bachelor	76	46.91%	99	46.05%	107	46.93%
	College	22	13.58%	25	11.63%	27	11.84%
	Diploma and below	0	0.00%	1	0.46%	1	0.44%
	Total	162	100.00%	215	100.00%	228	100.00%
Average Age and Seniority (Year)		2.23		2.31		2.25	

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

Unit: NTD ’000

Fiscal Year / Item	2014	2015	2016	2017	2018	March 31, 2019
Cost of Research and Development	149,800	268,469	388,960	518,013	852,023	300,644
Net Acquisition Revenue	45,473	534,447	1,673,268	4,731,908	5,909,333	1,393,119
As a Percentage of Net Acquisition Revenue (%)	329%	50%	23%	11%	14%	21%

Technologies or Products Successfully Developed in the Recent Five Years

Fiscal Year	Name of Product and Technology
2014	1. Software Products (1) Small size algorithm development of algorithms suitable for small-sized fingerprint

Fiscal Year	Name of Product and Technology
	IC matching (2) VKAPI mobile is designed with the new algorithm as the core and supports API for mobile devices (3) ProShield 1.6.25 security strengthening software for small and medium-sized enterprises system (4) Android Lib 1.0 for ET300, EH310 (Normal World Version) operating on the Lib package of the new fingerprint IC in the normal mode on Android (5) Android Lib 1.0 for ET300, EH310 (Trust Zone Version) operating on the Lib package of the new fingerprint IC in the safe mode on Android (6) WBF ES300 development of drivers with biometric recognition data that are suitable for Windows Biometric Framework 2. Hardware Products (1) ET300 Square, design win (2) ET310 Smallest rectangular, design in (3) ET317 Rectangular, prototyping
2015	1. Software Products (1) Small size algorithm (V2) quicker and small-sized fingerprint IC matching algorithms (2) Algorithm API mobile for ET32x/ET5xx is designed with the new algorithm as the core and supports API for the ET32 and ET5 series ICs (3) Android M Lib for ET32x, ET5xx (Normal World Version) operating on the Lib package of the new fingerprint IC (ET32 series and ET5 series) in the normal mode on Android M (4) Android M Lib for ET32x, ET5xx (Trust Zone Version) operating on the Lib package of the new fingerprint IC (ET32 series and ET5 series) in the safe mode on Android M (5) WBF for ET32x/ET5xx operating on ET32 series and ET5 series, drivers with biometric recognition data that are suitable for Windows Biometric Framework (6) Fingerprint Embedded Solution operating on the MCU fingerprint systems of STM-M4 and NXP 2. Hardware Products (1) ET320 8mmx4mm rectangular sensor, design win (2) EG160 Grip sensor, prototyping (3) ET502 9.6mmx2.4mm rectangular sensor, prototyping (4) ET505 8mmx4mm rectangular sensor, prototyping
2016	1. Software Products (1) Small size algorithm (v3) quicker and small-sized fingerprint IC matching algorithms (2) Algorithm API mobile for ET32x/ET5xx/ET6xx is designed with the new algorithms as the core and supports API for the IC of the ET32 series, ET5 series, and ET6 series. (3) Android M Lib for ET32x, ET5xx, ET6xx (Normal World Version) operating on the Lib package of the new fingerprint IC (ET32 series, ET5 series, and ET6 series) in the normal mode on Android M (4) Android M Lib for ET32x, ET5xx, ET6xx (Trust Zone Version) operating on the Lib package of the new fingerprint IC (ET32 series, ET5 series, and ET6 series) in the safe mode on Android M (5) Mobile payments TEE version on FIDO, AliPay, WechatPay (6) WBF for ET32x/ET5xx, ET6xx Operating on ET32 series, ET5 series, ET6 series, compatible with the biometric recognition data of the driver in the Windows Biometric Framework ● Inclusive of Intel SGX Matcher Lib ● ETU803 Module ● ETU902 Module (7) Fingerprint Embedded Solution operating on the MCU fingerprint systems of STM-M4, NXP and Atmel 2. Hardware Products

Fiscal Year	Name of Product and Technology
	ET320 8mmx4mm rectangular sensor, design win EG160 Grip sensor, prototyping ET502 9.6mmx2.4mm rectangular sensor, prototyping ET505 8mmx4mm rectangular sensor, prototyping
2017	1. Algorithm (1) G3 matching algorithm The G3 fingerprint matching algorithm can extract a large number of fingerprint feature points on a very small area of the image to optimize recognition, efficiency, reliability, and performance. It has been applied to the newly-marketed flagship mobile phones of major customers. 2. Hardware Products (1) ET5XX series Capacitive fingerprint identification chip series can be applied under the cover of 100 µm to 150 µm thickness with optimized cost structure. (2) ET6XX series Capacitive fingerprint identification chip series can be applied under the cover of 200 µm to 300 µm thickness with optimized sensing acuity.
2018	1. Algorithm (1) Swipe enroll/touch verify The innovative slide-type fingerprint registration algorithm can capture multiple fingerprint images in a single swiping motion. Compared with the previous press-type registration, in which the user must press the finger several times to capture the complete fingerprint feature. The registration not only significantly enhances the user experience, but also maintains a very good fingerprint recognition performance. It has been adopted by major customers in newly marketed flagship mobile phones. 2. Hardware Products (1) ET7XX series The optical fingerprint identification chip series can be applied to glass covers and AMOLED screens with thicknesses of 700 µm to 1,400 µm. In response to the trend of mobile phones with high screen-to-body ratio, fingerprint identification solutions under the screen are available.

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

1 Short-Term

（1）. In the area of hardware development: Strengthen cooperation with customers. At the same time, the integration of software resources and engineering test field support should also comply with customer requirements. Therefore, continuous improvement is required in the recruitment and development of new engineering personnel.

（2）. In the area of process improvement: Work closely with wafer fabrication plants to achieve the objective of lowering cost by adopting more efficient methods.

（3）. In the area of software development: Strengthen reused framework and introducing the testing under various environments

2 Long-Term

（1）． Strengthen the core competitiveness of product design and better understand and more rapidly grasp market trends.

（2）． Investment in new products and new technologies will accelerate the timeline for product introduction through market acquisitions or the introduction of new teams.

（3）． Solutions for various innovative biometrics will be developed together with strategic partners to grasp business opportunities while reducing R&D risks.

2. Overview of Market and Production and Sales

(1) Market Analysis

1. Regions of Sales (Supply) of Primary Products (Services)

Unit: NTD; %

Sales Region \ Fiscal Year		2017		2018	
		Amount	Percentage (%)	Amount	Percentage (%)
Domestic Sales		31,967	0.68%	9,551	0.16%
International Sales	Asia	4,699,941	99.32%	5,899,782	99.84%
	Europe	-	-	-	
	America	-	-	-	
	Subtotal	4,699,941	99.32%	5,899,782	99.84%
Total		4,731,908	100%	5,909,333	100%

2. Market Share

In 2018, shipments of smartphones equipped with fingerprint sensors worldwide reached more than 1 billion, and the penetration rate was approximately 64%. It is estimated that the shipment of smartphones equipped with fingerprint sensors will reach 1.25 billion by 2020, and the penetration rate will exceed 75%. (Source: DIGITIMES Research 7)

In 2018, the Company reported fingerprint identification chip shipments of more than 180 million, with a market share of approximately 18%. Its revenue grew exponentially and hit a record high of NTD 5.909 billion. In addition to the continuous growth of existing customers and the expansion of fingerprint chip application models to flagship models, new customers from major mobile phone brands in China and Japan have also made progress, and is expected to continue to expand the market share of fingerprint identification chip products in the global market.

3. Future Supply and Demand and Growth of the Market

In terms of smartphone application, fingerprint recognition has become a basic function of middle- and high-end smartphones. In 2018, the global shipments of smartphones equipped with fingerprint sensors reached more than 1 billion. In 2020, the shipments of smartphones with fingerprint sensors will reach 1.25 billion, and the penetration rate will exceed 75% (Source: DIGITIMES Research). With the global shipments of smartphones growing year by year, the multiple needs of the manufacturers in the Mainland to expand adoption and mobile payment are heating up, and the market demands for fingerprint sensors continues to grow strongly. It is estimated that the total output value of the entire fingerprint sensor market will reach US$12.82 billion by 2023, and the compound annual growth rate will reach 15.7% (Source: BIS Research).

In the aspect of supply, Fingerprint Cards AB (FPC), a large Swedish biometric sensor manufacturer, and Synaptics, a large American manufacturer, experienced a tumble in 2018 compared with their earnings in 2017, and a sharp fall in average sales price (ASP) and operating margin, as a result of failure to grasp the in-display optical fingerprint sensor technology.

Goodix, a Shenzhen-based chip provider invested by MediaTek, however, reported a surge in both revenue and gross profit margin in 2018 and has replaced FPC as the world's largest fingerprint recognition sensor supplier, after shifting its product focus to in-display optical fingerprint sensors.

In addition to basic functions of IC circuit design for fingerprint recognition chips, it is widely believed in the industry that the difficulty lies in the relationship between patents, funds and suppliers. With many years of experience in the fingerprint recognition industry, the Company prides itself in a unique sensing design of fingerprint recognition chips, proprietary algorithms and more than hundreds of patents related to the upstream and downstream fields of fingerprint recognition. It continuously invests in the research and development of advanced technologies and patents to strengthen its technological edges.

3. Regarding the suppliers and funds, because the size of the fingerprint identification chip must be able to detect fingerprints, it can be imagined that the area of the chip needs to be very large resulting in a product line that consumes a large number of wafers. When the production capacity is tight, the relationship with the foundry is essential. In addition, because fingerprint recognition chips consumes a large amount of wafer, if you want to reserve production capacity you also need a large amount of deposit which also tests the capacity of capital turnover of the wafer design factories. The Company continues to maintain a good cooperative relationship with suppliers and at the same time improve its own profitability and maintain flexible use of funds.

4. Competitive Niche

   With many years of experience in the fingerprint recognition industry, the Company prides itself in a unique design of fingerprint recognition chips, proprietary algorithms and more than hundreds of patents in the fingerprint recognition field. It has also become an automotive electronics supplier.

   In response to the development trend of the full screen, the fingerprint identification scheme under the screen can increase the proportion of screens, and all manufacturers are eager to invest in R&D. Based on the long-term accumulated fingerprint identification capabilities, the company recruited new R&D teams and technology partners to develop optical fingerprint identification chips and have made significant progress. At the same time, the Company has cooperated with customers to import fingerprint recognition solutions under the screen to customers' products.

   The Company has launched research and development of ToF (Time of Flight) 3D Modelling sensing technology. Furthermore, the Company keeps up strenuous efforts in developing more cost-effective chip solutions than existing technologies to help customers quickly apply them into products and accelerate the time to market.

   The company's biometric wafer product line will continue to evolve with process development, toward high resolution, high recognition rate, and multi-standard development. It will develop new applications and types in line with customer needs, expand application areas, and maintain the company's long-term industrial competitiveness.

(1) Unique Passive Capacitive Sensing Technology

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

(2) Autonomous Algorithm Technology

Capturing fingerprints accurately is only one part of fingerprint recognition. After the front-end fingerprint sensor captures the image of a fingerprint, the algorithm will then process the fingerprint image and extract the fingerprint minutiae. The system then converts the captured fingerprint into a digital template, which is then compared with all of the fingerprint templates in the database in order to verify the correct identity of the user. In the past, the larger surface area of the sensors used on notebook computers allowed larger images of fingerprints to be captured, which made the comparison of fingerprints relatively easier. Today, the images of fingerprints captured are smaller due to the small surface area of the sensors on the smartphones. Hence, the algorithms used in the fingerprint recognition on smartphones have become critical in the determination of the size of the chips and the cost of producing the chips. The Company not only possesses the technology for manufacturing fingerprint sensors, but also has independently developed fingerprint recognition algorithms which have passed strict test conditions. We have also integrated the relevant technologies for fingerprint extraction and unique integrated fingerprint algorithms.

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

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

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

As fingerprint recognition in smartphone applications has been predicted to have a rapid and flourishing development, patent rights protection becomes an important factor in the development of this particular industry. The development and protection of Intellectual Property (IP) is a useful tool to maintain the competitiveness of the company's products and technologies, especially when facing the strong competition from competitors worldwide. Major brands worldwide value the importance of patent rights protection. They have to ensure that all hardware and software used in brand products do not constitute an infringement of patent rights before proceeding with procurement. Thus, it is an important niche market for the company, which possesses over a hundred patents that cover the upstream and downstream of fingerprint recognition.

(4) Experience in Application Development and System Integration

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

5. Advantages and Disadvantages in the Company's Prospect, and Contingency Measures

(1) Advantageous Factors

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

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

As fingerprint recognition in smartphone applications has been predicted to have a rapid and flourishing development, patent rights protection becomes an important factor in the development of this particular industry. The development and protection of Intellectual Property (IP) is a useful tool to maintain the Company's competitiveness and its products and technologies, especially when facing strong competition from competitors worldwide. Major brands worldwide value the importance of patent rights protection. They have to ensure that all hardware and software used on their products do not constitute an infringement of patent rights before proceeding with procurement. It is thus the main reason for the industry's high barriers to entry. The Company possesses over a hundred patents that covers the upstream and downstream of fingerprint recognition, enabling the Company to provide more competitive prices and solutions that will not risk the infringement of patent rights.

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

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

As smartphones trend towards high screen-to-body ratio, all manufacturers strenuously invest in the R&D of in-display fingerprint identification solution because it increases the screen-to-body ratio. Based on the long-term accumulated fingerprint identification capabilities, the Company recruited new R&D teams and technology partners to develop optical fingerprint identification chips and have made significant progress. At the same time, the Company has cooperated with customers to import fingerprint recognition solutions under the screen to customers' products.

C. Diversification of Applications, Promising Future of the Industry

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

According to the ABI Research report, global industries will increase investment in various identification and authentication technologies in response to rising security requirements and the estimated global biometric market output will exceed 10 billion dollars by 2021, so the robust growth of biometric recognition application can be expected in the future.

(2) Disadvantageous Factors

A. 3D Face Recognition Rise, Exclusion Fingerprint Identification

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

Contingency Measures:

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

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

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

With the development of the Internet of things, automotive electronics, wireless communication, consumer electronics, the production capacity of wafer foundries is tight. TSMC, UMC, and VIS' eight-inch plants have reached full capacity utilization rates and their have been production cycle lengthened. Major wafer foundries have urged IC design customers to plan orders in advance. There have also been many cases of rising OEM prices.

Specific Contingency Measures:

In the past two years the fingerprint identification chip has been a main force in the 8 inch fab resulting in the production capacity of wafer foundries becoming tight. This is due to a couple of reasons: the penetration rate of fingerprint recognition in mobile phones continuously increases and the fingerprint identification chip has a relatively large area resulting in consuming a large amount of the production capacity. The Company continues to maintain a good relationship of cooperation with the fab and has mastered production and sales planning. With a shipment of more than one hundred million wafers a year, it has considerable advantages in bargaining space and capacity booking. In the market of fingerprint identification chip where the competition is increasingly fierce, the Company can still hold an advantageous position.

(2). The important uses and production processes of the main products

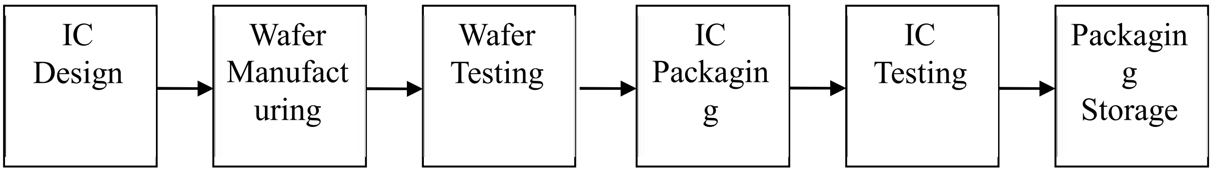
1. Important Uses of Main Products

Main Products	Main Function and Uses
Biometric Recognition Sensing IC and Its Applications	Capacitive Fingerprint Recognition Sensor Chip and Fingerprint Recognition Software Applications
Revenue from Technical Services	Provision of technical support services, including technical services like software testing and the development of sensor chips

2. Manufacturing Process of Main Products

The Company is a design company for fingerprint recognition ICs and its solutions.

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



(3) Supply of the Primary Raw Materials

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

(4) Names of customers who contributed to more than 10% of total purchase (or sales) amount in one of the most recent two years and the corresponding purchase (or sales) amounts and percentages, as well as reasons for their changes:

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

Unit: NTD'000; %

Item	2017				2018				March 31, 2019			
	Name	Amount in Cash	As a Percentage of Net Purchases (%)	Relationship with Issuer	Name	Amount in Cash	As a Percentage of Net Purchases (%)	Relationship with Issuer	Name	Amount in Cash	As a Percentage of Net Purchases (%)	Relationship with Issuer
1	Company A	2,225,704	84.90	Nil	Company A	2,209,227	76.28	Nil	Company A	351,042	70.64	Nil
2	Company B	83,163	3.17	Nil	Company B	605,919	20.92	Nil	Company B	0	0.00	Nil
3	Company C	0	0	Nil	Company C	0	0.00	Nil	Company C	139.224	28.01	Nil
	Others	312,709	11.93	-	Others	80,740	2.80	-	Others	6,704	1.35	-
	Purchases Net Amount	2,621,576	100.00	-	Purchases Net Amount	2,896,206	100.00	-	Purchases Net Amount	496,970	100.00	-

Reasons for Increase and Decrease: The proportion of the Company's purchases in the last two years has changed mainly due to production capacity. Some models have been transferred from Company A to Company B.

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

Unit: NTD'000; %

Item	2017				2018				March 31, 2019			
	Name	Amount in Cash	As a Percentage of Net Sales (%)	Relationship with Issuer	Name	Amount in Cash	As a Percentage of Net Sales (%)	Relationship with Issuer	Name	Amount in Cash	As a Percentage of Net Sales (%)	Relationship with Issuer
1	Company A	2,073,638	43.82%	Nil	Company A	2,114,610	35.78%	Nil	Company A	306,498	22.00%	Nil
2	Company B	880,487	18.61%	Nil	Company B	506,970	8.58%	Nil	Company B	108,649	7.80%	Nil
3	Company C	780,510	16.49%	Nil	Company C	2,069,868	35.03%	Nil	Company C	104,617	7.51%	Nil

4	Company D	647,791	13.69%	Nil	Company D	710,856	12.03%	Nil	Company D	149,645	10.74%	Nil
	Others	349,482	7.39%	Nil	Others	507,029	8.58%	Nil	Company E	676,526	48.56%	Nil
									Others	47,184	3.39%	Nil
	Sales Net Amount	4,731,908	100%	-	Sales Net Amount	5,909,333	100%	-	Sales Net Amount	1,393,119	100%	-

Reasons for Increase and Decrease: The Company has achieved success in the development of new products and acquiring new customers, resulting in a substantial growth in the customer revenue of the brand.

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

Unit: PCS; NTD'000

Fiscal Year / Output Quantity and Value / Primary Product		2017			2018		
		Capacity	Output	Value	Capacity	Output	Value
Biometric Recognition Sensing IC and Its Applications	IC and Application Devices	Note 1	113,082,772	5,370,945	Note 1	183,788,763	6,600,725
	Software Application	Note 2	Note 2	Note 2	Note 2	Note 2	Note 2
Data Security and Protection and Its Applications		Note 2	Note 2	Note 2	Note 2	Note 2	Note 2
Technical Services		Note 2	Note 2	Note 2	Note 2	Note 2	Note 2
Total			113,082,772	5,370,945		183,788,763	6,600,725

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

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

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

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

Unit: PCS; NTD'000

Fiscal Year / Sales Quantity / Primary Product		2017				2018			
		Domestic Sales		International Sales		Domestic Sales		International Sales	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Biometric Recognition Sensing IC and Its Applications	IC and Application Devices	593,532	27,998	110,908,222	4,675,049	84,000	4,827	180,374,909	5,898,546
	Software Application	Note 1	-	Note 1	21,524	Note 1	-	Note 1	50
Data Security and Protection and Its Applications		Note 1	3,969	Note 1	-	Note 1	4,724	Note 1	-
Technical Services		Note 1	-	Note 1	3,368	Note 1	-	Note 1	1,186
Others		Note 1	-	Note 1	-	Note 1	-	Note 1	-
Total		593,532	31,967	110,908,222	4,699,941	84,000	9,551	180,374,909	5,899,782

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

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

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

Fiscal Year		2016	2017	2018	As of March 31, 2019
Number of Employees	Direct	0	0	-	-
	Indirect	173	217	273	288
	Total	173	217	273	288
Average Age		33.98	35.73	36.21	36.06
Average Length of Service (Years)		2.09	2.38	2.54	2.51
Education Level Ratio (%)	PhD	3.47%	4.15%	3.30%	2.78%
	Postgraduate	31.79%	34.10%	37.00%	37.50%
	University and Diploma	64.16%	61.29%	58.97%	59.03%
	Diploma and below	0.58%	0.46%	0.73%	0.69%
	Total	100.00%	100.00%	100.00%	100.00%

4. Information on Disbursements for Environmental Protection

Total Losses (Including Damages) and Fines for Environmental Pollution in the Current Fiscal Year Up to the Date of Publication of the Annual Report, Explanation of Future Contingency Policies (including the improvement of measures) and Possible Payments (including the possible Losses, fines, and damages incurred for failure to adopt the contingency policies; an explanation should be provided should a reasonable estimation cannot be given): The Company is an IC design company, and thus is not involved in environmental pollution.

5. Labor Relations

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

1. Employee Benefits and Implementation

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

Benefits Provided by the Company:

(1) Labor insurance, national health insurance, and the allocation of labor pension are provided in compliance with the law.

(2) The Company pays for the employee's insurance in full, including life insurance, casualty insurance, medical insurance, cancer insurance, and business travel insurance.

(3) Annual health checkups, overtime dinners, department banquets, year-end company parties and events etc.

(4) Competitive salary including year-end bonuses, performance bonuses, special project bonuses, patent bonuses, and subsidies for business travel expenses etc.

Benefits Provided by the Employee Welfare Committee:

(1) Lucky draws in year-end company parties.

(2) Employee holiday trips and festive celebratory events.

(3) Cash gifts and gifts for the three traditional holidays (namely the Spring Festival, Dragon Boat Festival and Mid-Autumn Festival) and cash gifts for birthdays.

(4) Subsidies for weddings and funerals.

2. Employee Training and Development

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

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

3. Retirement Scheme and its Implementation

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

4. Situation on Labor and Management Relations

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

5. Various Protective Measures for Employee Rights and Interests

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

(2) Losses Incurred by the Company as a Result of Labor Disputes in the Current Fiscal Year Up to the Date of Publication of the Annual Report and Disclose and Estimate of Losses Incurred to Date or Likely to be Incurred in the Future, and the Contingency Measures. An Explanation Should be Provided Should a Reasonable Estimation Cannot be Given: No such situation.

6. Important Contracts

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

Nature of Contract	Parties Involved	Date of the Subscription Agreement	Main Content	Terms and Conditions
Tenancy Agreement	Chen○Ying	03/2017 ~ 02/2022	Rental of Office	Nil
Software Authorization Contract	Company Shen	01/2015 - Now	Software Authorization	Nil
Software Authorization Contract	Company Yin	01/2015 - Now	Software Authorization	Nil
Procurement Contract	Company A	12/2013 ~ 11/2023	Procurement of Raw Materials	Nil
Manufacturing Process Outsourcing Contract	Company H	04/2015 - Now	Manufacturing Process Outsourcing	Nil

VI. Financial Overview

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

1 Concise Financial Information for the Last Five Years

(1) Consolidated Concise Balance Sheet - International Financial Reporting Standards

Unit: NTD'000

Item \ Fiscal Year		Financial Information for the Last Five Fiscal Years					2019 As of March 31
		2014	2015	2016	2017	2018	
Current assets		580,354	1,380,007	2,170,794	3,238,969	3,750,401	4,018,235
Investments accounted for using equity method		-	-	-	-	25,963	73,646
Property, plant and equipment		13,423	17,340	23,874	33,758	39,437	40,378
Intangible assets		120,448	114,141	217,136	200,641	214,695	240,650
Other assets		42,091	57,216	81,254	154,300	278,040	337,641
Total assets		756,316	1,568,704	2,493,058	3,627,668	4,308,536	4,710,550
Current liabilities	Before distribution	92,024	218,774	933,703	1,363,586	1,915,374	2,079,616
	After distribution	92,024	218,774	933,703	1,665,048	Note 2	Note 2
Non-current liabilities		-	-	1,285	-	1,038	85,722
Total liabilities	Before distribution	92,024	218,774	934,988	1,363,586	1,916,412	2,165,338
	After distribution	92,024	218,774	934,988	1,665,048	Note 2	Note 2
Equity attributable to owners of the parent company		664,292	1,349,930	1,558,070	2,264,082	2,392,124	2,533,594
Share capital		621,493	684,693	695,573	709,323	710,673	710,803
Capital reserves		268,502	749,662	742,625	942,038	963,159	965,101
Retained earnings	Before distribution	(230,159)	(89,590)	114,026	707,217	1,076,546	1,210,214
	After distribution	(230,159)	(89,590)	114,026	405,755	Note 2	Note 2
Other equities		4,456	5,165	5,846	(94,496)	(79,514)	(73,784)
Treasury stock		-	-	-	-	(278,740)	(278,740)
Non-controlling interests		-	-	-	-	-	11,618
Total equity	Before distribution	664,292	1,349,930	1,558,070	2,264,082	2,392,124	2,545,212
	After distribution	664,292	1,349,930	1,558,070	1,962,620	Note 2	Note 2

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants and the consolidated financial statements for the first quarter of 2019 have been reviewed by the certified public accountants.
Note 2: The 2018 Earnings Distribution Plan is still pending resolution by the shareholders' meeting.

(2) Consolidated and Concise Balance Sheet-R.O.C.'s Financial Accounting Standards

The company has fully adopted the International Financial Reporting Standards (IFRS) in 2013 to prepare financial statements

(3) Individual Concise Balance Sheet-International Financial Reporting Standards

Unit: NTD'000

Item \ Fiscal Year		Financial Information for the Last Five Fiscal Years				
		2014	2015	2016	2017	2018
Current assets		568,254	1,366,254	2,139,538	3,199,315	3,710,691
Investments accounted for using equity method		15,790	13,516	29,879	34,442	68,710
Property, plant and equipment		12,916	16,879	22,705	33,111	37,531
Intangible assets		115,373	114,141	217,136	200,641	213,906
Other assets		40,195	56,229	79,994	154,056	275,885
Total assets		752,528	1,567,019	2,489,252	3,621,565	4,306,723
Current liabilities	Before distribution	88,236	217,089	929,897	1,357,483	1,913,561
	After distribution	88,236	217,089	929,897	1,658,945	Note 2
Non-current liabilities		-	-	1,285	-	1,038
Total liabilities	Before distribution	88,236	217,089	931,182	1,357,483	1,914,599
	After distribution	88,236	217,089	931,182	1,658,945	Note 2
Equity attributable to owners of the parent company		664,292	1,349,930	1,558,070	2,264,082	2,392,124
Share capital		621,493	684,693	695,573	709,323	710,673
Capital reserves		268,502	749,662	742,625	942,038	963,159
Retained earnings	Before distribution	(230,159)	(89,590)	114,026	707,217	1,076,546
	After distribution	(230,159)	(89,590)	114,026	405,755	Note 2
Other equities		4,456	5,165	5,846	(94,496)	(79,514)
Treasury stock		-	-	-	-	(278,740)
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	664,292	1,349,930	1,558,070	2,264,082	2,392,124
	After distribution	664,292	1,349,930	1,558,070	1,962,620	Note 2

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants.
Note 2: The 2018 Earnings Distribution Plan is still pending resolution by the shareholders' meeting.

(4) Concise Individual Balance Sheet-R.O.C.'s Financial Accounting Standards

The company has fully adopted the International Financial Reporting Standards (IFRS) in 2013 to prepare financial statements

2. Concise Consolidated Income Statements

(1) Concise Consolidated Income Statement-International Financial Reporting Standards

Unit: NTD'000

Item \ Fiscal Year	Financial Information for the Last Five Fiscal Years					2019 As of March 31
	2014	2015	2016	2017	2018	
Operating revenue	45,473	534,447	1,673,268	4,731,908	5,909,333	1,393,119
Gross operating profit	13,794	396,856	755,801	1,822,175	2,083,902	575,246
Operating loss	(267,166)	(63,323)	136,019	776,643	726,177	154,643
Non-operating revenue and expenditure	7,776	7,673	22,733	(40,757)	121,919	12,825
Net profit (loss) before tax	(259,390)	(55,650)	158,752	735,886	848,096	167,468
Net profit from continuing operations	(230,159)	(89,590)	114,026	593,191	670,791	126,677
Loss from discontinued operations	-	-	-	-	-	-
Net profit (loss) for the current period	(230,159)	(89,590)	114,026	593,191	670,791	126,677
Other comprehensive income(net amount after tax) for the current period	(3,129)	709	681	(2,608)	(53,280)	(1,098)
Total comprehensive income for the current period	(233,288)	(88,881)	114,707	590,583	617,511	125,579
Net profit attributable to owners of the parent company	(230,159)	(89,590)	114,026	593,191	670,791	133,668
Net profit attributable to non-controlling interests	-	-	-	-	-	(6,991)
Total comprehensive income attributable to owners of the parent company	(233,288)	(88,881)	114,707	590,583	617,511	132,570
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-	(6,991)
Earnings per share	(3.75)	(1.44)	1.66	8.50	9.62	1.96

Note 1: The financial information of the respective fiscal years has been audited and certified by the certified public accountants and the consolidated financial statements for the first quarter of 2019 have been reviewed by the certified public accountants.

(2) Concise Consolidated Income Statement-R.O.C.'s Financial Accounting Standards

The company has fully adopted the International Financial Reporting Standards (IFRS) in 2013 to prepare financial statements

(3) Concise Individual Consolidated Income Statement-International Financial Reporting Standards

Unit: NTD'000

Item \ Fiscal Year	Financial Information for the Last Five Fiscal Years				
	2014	2015	2016	2017	2018
Operating revenue	45,473	534,447	1,673,268	4,731,908	5,909,333
Gross operating profit	13,794	396,856	755,801	1,822,175	2,083,902
Operating loss	(241,589)	(47,057)	167,854	783,856	728,237
Non-operating revenue and expenditure	(17,801)	(8,593)	(9,312)	(51,898)	113,718
Net profit (loss) before tax	(259,390)	(55,650)	158,542	731,958	841,955
Net profit from continuing operations	(230,159)	(89,590)	114,026	593,191	670,791
Loss from discontinued operations	-	-	-	-	-
Net profit (loss) for the current period	(230,159)	(89,590)	114,026	593,191	670,791
Other comprehensive income(net amount after tax) for the current period	(3,129)	709	681	(2,608)	(53,280)
Total comprehensive income for the current period	(233,288)	(88,881)	114,707	590,583	617,511
Earnings per share	(3.75)	(1.44)	1.66	8.50	9.62

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

(4) Concise Individual Consolidated Income Statement-R.O.C.'s Financial Accounting Standards

The company has fully adopted the International Financial Reporting Standards (IFRS) in 2013 to prepare financial statements

3. Names and Audit Opinion of Certified Public Accountants for the Last Five Fiscal Years

Fiscal Year	Name of Accounting Firm	Name of Certified Public Accountant Responsible for Certification Work	Opinion
2014	KPMG Taiwan	Sonia Chang and Philip Tang	Unqualified opinion
2015	KPMG Taiwan	Sonia Chang and Philip Tang	Unqualified opinion
2016	KPMG Taiwan	Steven Shih and Philip Tang	Unqualified opinion
2017	KPMG Taiwan	Steven Shih and Philip Tang	Unqualified opinion
2018	KPMG Taiwan	Steven Shih and Philip Tang	Unqualified opinion

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

2. Financial Analysis for the Last Five Fiscal Years

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

Analysis Item \ Fiscal Year		Financial Analysis for the Last Five Fiscal Years					2019 As of March 31
		2014	2015	2016	2017	2018	
Financial structure (%)	Liabilities to assets ratio	12.17	13.95	37.50	37.59	44.48	45.97
	Permanent capital to property, plant and equipment ratio	4,948.91	7,785.06	6,531.60	6,706.80	6,068.32	6,515.76
Solvency	Current ratio (%)	630.66	630.79	232.49	237.53	195.81	193.22
	Quick ratio (%)	597.93	554.01	168.75	181.46	162.73	171.09
	Interest coverage ratio	(952.64)	(151.88)	100.72	80.94	86.52	41.08
Operational capability	Receivables turnover ratio (number of times)	2.47	11.66	6.85	8.32	8.80	7.79
	Average collection period	148	31	53	44	42	47
	Inventory turnover ratio (number of times)	1.49	1.58	2.62	4.66	6.09	6.94
	Payables turnover ratio (number of times)	2.40	3.29	3.38	5.24	7.36	7.18
	Average sales days of inventory	245	231	139	78	60	53
	Property, plant and equipment turnover ratio (number of times)	4.88	34.75	81.2	164.21	161.47	139.63
	Total assets turnover ratio (number of times)	0.08	0.46	0.82	1.55	1.49	1.24
Profitability	Return on assets (%)	(42.50)	(7.68)	5.68	19.63	17.10	12.15
	Return on equity (%)	(51.34)	(8.90)	7.84	31.04	28.81	21.66
	Pre-tax profit to paid-in capital ratio (%)	(41.74)	(8.13)	22.82	103.74	119.34	23.56
	Net profit margin (%)	(506.14)	(16.76)	6.81	12.54	11.35	9.59
	Earnings per share (NTD)	(3.75)	(1.44)	1.66	8.50	9.62	1.96
Cash Flow	Cash flow ratio (%)	(228.76)	(66.75)	(14.14)	43.47	47.26	14.65
	Cash flow adequacy ratio (%)	(494.04)	(223.43)	(77.43)	6.12	94.95	172.96
	Cash reinvestment ratio (%)	(29.88)	(10.42)	(8.22)	25.66	24.69	11.34
Degree of leverage	Degree of operating leverage	(0.05)	(5.49)	4.70	1.91	2.50	3.40
	Degree of financial leverage	1.00	0.99	1.01	1.01	1.01	1.03

The explanations for financial ratios with changes in excess of 20% for 2018 as compared to 2017 are as follows:

1. Inventory turnover ratio and average sales days of inventory: The substantial increase in operating revenue in this period has increased the cost of goods sold.
2. Payables turnover ratio: This is mainly caused by the 30-day monthly payment of major raw material suppliers in this period.
3. Cash flow adequacy ratio: This is mainly caused by substantial growth in operating revenue resulting in net cash inflow due to current business activities in this period.
4. Degree of operating leverage: The deduction of operating income is caused by the increase of research and development expense in this period.

Information source: The financial statements audited and certified by the certified public accountants and the consolidated financial statements for the first quarter of 2019 reviewed by the certified public accountants.

The formulae for analysis are as follows:

1. Financial structure

(1) Liabilities to assets ratio = total liabilities/total assets.

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

2. Solvency

(1) Current ratio = current assets/current liabilities.

(2) Quick ratio = (current assets - inventories - prepaid expenses)/current liabilities.

(3) Interest coverage ratio = profit before income tax and interest expenses/interest expenses for the current period.

3. Operational capability

(1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover ratio = net sales/average receivables (including accounts receivable and notes receivable arising from business operations) balance for each period.

(2) Average collection period = 365/receivables turnover ratio.

(3) Inventory turnover ratio = cost of goods sold/average inventory value.

(4) Payables (including accounts payable and notes payable arising from business operations) turnover ratio = cost of goods sold/average payables (including accounts payable and notes payable arising from business operations) balance for each period.

(5) Days' sales in inventory = 365/inventory turnover ratio.

(6) Property, plant and equipment turnover ratio = net sales/average net value of property, plant and equipment.

(7) Total assets turnover ratio = net sales/average total assets.

4. Profitability

(1) Return on assets = [profit or loss after tax + interest expenses x (1 - tax rate)]/average total assets.

(2) Return on equity = profit or loss after tax/average total equity.

(3) Net profit margin = profit or loss after tax/net sales.

(4) Earnings per share = (profit or loss attributable to owners of the parent company - preferred dividends)/weighted average number of issued shares.

5. Cash Flow

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

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

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

6. Degree of leverage:

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

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

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

The company has fully adopted the International Financial Reporting Standards (IFRS) in 2013 to prepare financial statements

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

Analysis Item	Fiscal Year	Financial Analysis for the Last Five Fiscal Years				
		2014	2015	2016	2017	2018
Financial structure (%)	Liabilities to assets ratio	11.73	13.85	37.41	37.48	44.46
	Permanent capital to property, plant and equipment ratio	5,143.17	7,997.69	6,867.89	6,837.85	6,376.49
Solvency	Current ratio (%)	644.02	629.35	230.08	235.68	193.92
	Quick ratio (%)	610.11	552.02	166.11	179.39	160.83
	Interest coverage ratio	(952.64)	(151.88)	100.59	80.51	85.90
Operational capability	Receivables turnover ratio (number of times)	2.47	11.66	6.85	8.32	8.80
	Average collection period	148	31	53	44	42
	Inventory turnover ratio (number of times)	1.49	1.58	2.62	4.66	6.09
	Payables turnover ratio (number of times)	2.40	3.29	3.38	5.24	7.36
	Average sales days of inventory	245	231	139	78	60
	Property, plant and equipment turnover ratio (number of times)	5.24	35.87	84.54	169.55	167.30
	Total assets turnover ratio (number of times)	0.08	0.46	0.83	1.55	1.49
Profitability	Return on assets (%)	(42.67)	(7.70)	5.69	19.66	17.12
	Return on equity (%)	(51.34)	(8.90)	7.84	31.04	28.81
	Pre-tax profit to paid-in capital ratio (%)	(41.74)	(8.13)	22.79	103.19	118.47
	Net profit margin (%)	(506.14)	(16.76)	6.81	12.54	11.35
	Earnings per share (NTD)	(3.75)	(1.44)	1.66	8.50	9.62
Cash Flow	Cash flow ratio (%)	(214.75)	(58.94)	(11.00)	44.29	47.91
	Cash flow adequacy ratio (%)	(471.42)	(169.79)	(63.21)	15.08	101.62
	Cash reinvestment ratio (%)	(26.90)	(9.13)	(6.37)	26.03	25.18
Degree of leverage	Degree of operating leverage	(0.06)	(7.39)	3.81	1.89	2.49
	Degree of financial leverage	1.00	0.99	1.01	1.01	1.01

The explanations for financial ratios with changes in excess of 20% for 2018 as compared to 2017 are as follows:

1、 Inventory turnover ratio and average sales days of inventory: The substantial increase in operating revenue in this period has increased the cost of goods sold.
2、 Payables turnover ratio (number of times): This is mainly caused by the 30-day monthly payment of major raw material suppliers in this period.
3、 Cash flow adequacy ratio: This is mainly caused by substantial growth in operating revenue resulting in net cash inflow due to current business activities in this period.
4、 Degree of operating leverage: The deduction of operating income is caused by the increase of research and development expense in this period.

Information source: The financial statements audited and certified by the certified public accountants.

The formulae for analysis are as follows:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities/total assets.
   (2) Permanent capital to property, plant and equipment ratio = (total equity + non-current liabilities)/net value of property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets/current liabilities.
   (2) Quick ratio = (current assets - inventories - prepaid expenses)/current liabilities.
   (3) Interest coverage ratio = profit before income tax and interest expenses/interest expenses for the current period.
3. Operational capability
   (1) Receivables (including accounts receivable and notes receivable arising from business operations) turnover ratio = net sales/average receivables (including accounts receivable and notes receivable arising from business operations) balance for each period.
   (2) Average collection period = 365/receivables turnover ratio.
   (3) Inventory turnover ratio = cost of goods sold/average inventory value.
   (4) Payables (including accounts payable and notes payable arising from business operations) turnover ratio = cost of goods sold/average payables (including accounts payable and notes payable arising from business operations) balance for each period.
   (5) Days' sales in inventory = 365/inventory turnover ratio.
   (6) Property, plant and equipment turnover ratio = net sales/average net value of property, plant and equipment.
   (7) Total assets turnover ratio = net sales/average total assets.
4. Profitability
   (1) Return on assets = [profit or loss after tax + interest expenses x (1 - tax rate)]/average total assets.
   (2) Return on equity = profit or loss after tax/average total equity.
   (3) Net profit margin = profit or loss after tax/net sales.
   (4) Earnings per share = (profit or loss attributable to owners of the parent company - preferred dividends)/weighted average number of issued shares.
5. Cash Flow
   (1) Cash flow ratio = net cash flow from operating activities/current liabilities.
   (2) Cash flow adequacy ratio = net cash flow from operating activities for the last five fiscal years/(capital expenditures + inventory increase + cash dividends) for the last five fiscal years.
   (3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends)/(gross value of property, plant and equipment + long-term investments + other non-current assets + working capital).
6. Degree of leverage:
   (1) Degree of operating leverage = (net operating revenue – variable operating costs and expenses)/operating income.
   (2)Degree of financial leverage = operating income/(operating income - interest expenses).

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

The company has fully adopted the International Financial Reporting Standards (IFRS) in 2013

3. Audit Committee's Audit Report for the Financial Statements of the Last Fiscal Year: Please refer to Page 165 for details.

4. Financial Statements for the Last Fiscal Year, including an Audit Report Prepared by Certified Public Accountants, a Two-Year Comparative Balance Sheet and Consolidated Income Statement, Statement of Changes in Equity, Cash Flow Statement, and Any Attached Notes or Appendices: Please refer to Consolidated Financial Statements.

5. Parent Company Only Financial Statements for the Last Fiscal Year, Audited and Certified by Certified Public Accountants: Please refer to Parent Company Only Financial Statements.

6. If the Company or its Affiliated Enterprises have experienced Financial Difficulties during the Last Fiscal Year or the Current

Fiscal Year up to the Date of Publication of the Annual Report, an Explanation on the Effect of the said Difficulties on the Company's Financial Situation should be Provided: No such situation.

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

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

Unit: NTD'000

Item \ Fiscal Year	2018	2017	Difference	
			Amount	%
Current assets	3,750,401	3,238,969	511,432	15.79
Investments accounted for using equity method	25,963	-	25,963	-
Property, plant and equipment	39,437	33,758	5,679	16.82
Intangible assets	214,695	200,641	14,054	7.00
Other assets	278,040	154,300	123,740	80.19
Total assets	4,308,536	3,627,668	680,868	18.77
Current liabilities	1,915,374	1,363,586	551,788	40.47
Non-current liabilities	1,038	-	1,038	-
Total liabilities	1,916,412	1,363,586	552,826	40.54
Share capital	710,673	709,323	1,350	0.19
Capital reserves	963,159	942,038	21,121	2.24
Retained earnings	1,076,546	707,217	369,329	52.22
Other equities	(79,514)	(94,496)	14,982	(15.85)
Treasury stock	(278,740)	-	(278,740)	-
Total equity	2,392,124	2,264,082	128,042	5.66

1. For items with a 20% or more variation between the previous and current periods and the variation amount reaches NTD 10 million, an explanation should be provided:
   (1) Other assets: This is mainly caused by an increase in prepayment for investment.
   (2) Current liabilities: This is mainly caused by an increase of short-term loans.
   (3) Retained earnings: NTD 301,462,000 of the 2017 net profit after tax was distributed based on the resolution of shareholder meeting on May 30, 2018, and the net profit for the year ended in 2018 is NTD 670,791,000.
   (4) Treasury stock: This is mainly caused by 2,600,000 shares of the treasury stock repurchased for transfer to employees.
2. Planned future contingency measures when the impact is of material significance: Nil.

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

(1) Comparative Analysis of Financial Performance

Unit: NTD'000

Item \ Fiscal Year	2018	2017	Increase (Decrease) Amount	Percentage of Change (%)
Operating revenue	5,909,333	4,731,908	1,177,425	24.88
Gross operating profit	2,083,902	1,822,175	261,727	14.36
Net operating profit	726,177	776,643	(50,466)	(6.50)
Non-operating revenue and expenditure	121,919	(40,757)	162,676	(399.14)
Net profit before tax	848,096	735,886	112,210	15.25
Income Tax Expenses	177,305	142,695	34,610	24.25
Net profit for the current period	670,791	593,191	77,600	13.08
Other comprehensive income (net amount after tax) for the current period	(53,280)	(2,608)	(50,672)	1,942.94
Total comprehensive income for the current period	617,511	590,583	26,928	4.56

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

(1) Operating revenue: This is mainly due to a substantial growth in operating revenue arising from successful business development.
(2) Non-operating revenue and expenditure: This is mainly caused by the profits on exchange as a result of exchange rate fluctuations.
(3) Income tax expenses: This is mainly due to an increase in income tax expenses arising from a substantial growth in operating revenue.
(4) Other comprehensive income for the current period: This is mainly due to the valuation loss on financial assets as measured by fair value through other comprehensive income.

2. Sales volume forecast and the basis therefore, as well as the possible impact on the Company's future financial operations and contingency measures:

The Company's main products are biometric sensing IC and its applications. The Business Department formulated the sales volume forecast based on the sales forecast of existing products, development progress of new products, forecast value of customer production demand, with the business development strategy taken into account. Along with the trend on the introduction of fingerprint recognition applications into handheld devices, it is estimated that there will be a growth in sales volume.

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

(1) Explanation on the analysis of cash flow changes during the last fiscal year (2018)

1. Financial Analysis

Unit: NTD'000

Opening cash balance (1)	Net cash flow from operating activities for the year (2)	Cash outflows (inflows) for the year (3) (Note)	Surplus (insufficient) cash amount (1)+(2)-(3)	Remedial measures for insufficient cash	
				Investment plan	Financial plan
1,153,711	905,187	(414,965)	2,473,863	NA	NA

Note: Inclusive of the effect of exchange rate fluctuations on cash and cash equivalents, that is, NTD 1,092,000.

Analysis of cash flow changes during the current fiscal year:

(1) Operating activities: The net cash inflow from operating activities added up to NTD 905,187,000 due to an increase in operating revenue arising from business growth.

(2) Investment activities: This is mainly due to the deduction of redeposited amount in fixed deposit with a maturity of more than three months and the increase in prepayment for investment, resulting in a net cash inflow from investment activities of NTD 296,361,000.

(3) Financing activities: This is mainly due to an increase of NTD 680,796,000 in short-term loans from the previous period, resulting in a net cash inflow from financing activities of NTD 117,512,000.

2. Improvement measures for illiquidity: The Company is not subject to any situation of illiquidity.

3. Liquidity analysis for the coming year (2019)

Unit: NTD'000

Opening cash balance (1)	Estimated net cash flow from operating activities for the year (2)	Estimated cash outflows (inflows) for the year (3)	Estimated surplus (insufficient) cash amount (1)+(2)-(3)	Remedial measures for estimated insufficient cash	
				Investment plan	Financial plan
2,473,863	1,076,310	385,033	3,165,140	NA	NA

1. Liquidity analysis for the coming year:

(1) Operating activities: The operating revenue of the Company is expected to grow uninterruptedly in 2019, thus resulting in a net cash inflow from operating activities.

(2) Investment activities: This is due to the investment in IC design of artificial intelligence for the R&D of new products, thus resulting in a net cash outflow from operating activities.

(3) Financing activities: This is mainly due to the distribution of cash dividends and repayment of short-term loans, thus resulting in a net cash outflow from financing activities.

2. Remedial measures for estimated insufficient cash: There is no situation of estimated insufficient cash. Therefore, this is not applicable.

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

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

1. Reinvestment Policy

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

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

Unit: NTD'000

Name of reinvestment business	Main business item	Investment (losses) and gains recognized in 2018	Main reasons for profits or losses -	Plan for improving reinvestment profitability
Egis Inc.	Holding company	(16)	Operating losses.	-
Egis Technology (Japan) Inc.	Sales of information security software, biometric application software and hardware	(9,076)	Operating losses.	Continual development of the market to clinch new customers
Egis Tec USA Inc.	Technology development	658	Income from technical services	-
Egis Technology (Korea) Inc.	Customer service, business promotion and technical support	324	Income from technical services	-
Tyrafos Technologies Co., Ltd	Technology development	6,854	Operating profit	-

3. Investment plan for the coming year

In response to the evolving trend of an increasingly higher screen to body ratio demand, it is predicted that multi-biometric identification will be the trend of the next generation of smartphones. Chip design for fingerprint identification under multi-point screen with large screen and algorithm for in-depth learning of artificial intelligence will be applicable to the fields of virtual reality and automobiles. In the future, the Company will continue to invest in multi-biometric technology, develop diversified software and hardware integration solutions, enhance the end-user experience and strengthen the value-added function of products.

6. Risk Management Analysis and Evaluation

(I) Risk Management Policy

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

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

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

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

2. If the Company's important risk assessment matters do not need to be reviewed by the second and third mechanisms for implementation matters, it will conduct legal affairs to identify, assess and prevent risks with the audit office if necessary;

usually if it finds that there is immediately potential risks, it can also be immediately reported to the superiors for prevention.

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

(2) Risk management organization form

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

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

1. Interest Rate Fluctuations

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

The Company operates mainly on its own capital. The percentages of bank loans to total assets for the fiscal years 2017 and 2018 are 7.73% and 22.31%, respectively. The percentages of interest expenses to the net operating revenue of each period are 0.19% and 0.17%, respectively, which are relatively small. Therefore, interest rate fluctuations have a limited effect on the profits and losses of the Company. The Company will continue to closely monitor global and national economic dynamics in the future and take necessary measures whenever needed, to minimize the risk of interest rate fluctuations on the profits and losses of the Company.

(2) Specific Contingency Measures

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

2. Exchange Rate Fluctuations

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

The purchase and sales transactions of the Company are mainly denominated, paid and received in the U.S. dollar. The net exchange (losses) profits of the Company in the fiscal years 2017 and 2018 are USD (52,815,000) and USD 84,481,000, respectively, accounting for approximately (1.12%) and 1.43% of the Company's net operating revenue, respectively, and accounting for (7.18%) and 9.96% of the net loss before tax, respectively. Therefore, the exchange rate fluctuated within a reasonable range and had a limited effect on the Company.

(2) Specific Contingency Measures

A. When providing customers with price quotations, the Business Department will take into account the exchange rate trends for quotation decision-making and make dynamic adjustments to quoted prices offered to customers, so as to avoid any significant impact on the Company's profits due to the exchange rate fluctuations.

B. The natural hedging of foreign exchange risk will continue to be the main strategy for exchange rate risk control and management in the future, and the foreign currency assets and liabilities will be appropriately adjusted to lower the risks arising from exchange rate fluctuations.

3. Inflation

(1) Analysis of the Impact on the Company

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

(2) Specific Contingency Measures

A. The Company will be aware of the fluctuations in market prices of upstream raw materials at all times and maintain good interactions with suppliers and customers, so as to predict the market trends of the raw materials and lower the impact of rising prices.

B. In accordance with fluctuations in the costs of raw materials, the Company will dynamically adjust the prices offered to customers when the preset tolerance intervals are exceeded, so as to avoid any significant impact on the Company due to inflation.

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

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

Risk Item	Implementation Status	Policies and Contingency Measures
Derivative Transactions	The Company did not engage in any derivative transactions in the last fiscal year and the current fiscal year up to the date of publication of the annual report.	Should there be a need for the Company to engage in derivative transactions in the future, the Company shall adhere to the conservatism principle for the primary purpose of avoiding the risks arising from foreign exchange fluctuations, and shall publicly declare the operation in accordance with the relevant laws and regulations.

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

1. Future Research and Development Plan

   The Company expects to invest in 3D Modelling sensing technology for Time of Flight (ToF), develop chip design for fingerprint identification under multi-point screen with large screen, and algorithm for in-depth learning of artificial intelligence, and chip scheme with more cost advantages than existing technologies in the market to increase the applications of AR and other end-user products.

2. Estimated Research and Development Expenses

   The estimated research and development expenses of the Company are gradually allocated based on the progress of the development of new products and new technologies and adjusted according to the market changes and the progress in the research and development of new products. The Company expects to invest approximately NTD 1,411,825 in research and development in 2019 in continual support of the future research and development plans, so as to sustain the market competitive advantages of the Company's products.

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

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

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

The Company will monitor the relevant technological development and changes of its industry at all times so as to grasp the industry trends and continually improve its research and development capabilities. The Company will actively expand the field of applications for the future market so as to ensure that the Company maintains its market competitive advantages. The Company's financial operations have not been affected by any technological innovation or industrial changes in the last fiscal year and the current fiscal year up to the date of publication of the annual report.

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

Since its establishment, the Company has focused on its core business operations, adhering to relevant laws and regulations, actively strengthening internal control and improving management quality and performance, so as to uphold the good corporate image of the

Company and increase customer trust. The Company has not faced any operational crisis due to changes in the Company's corporate image in the last fiscal year and the current fiscal year up to the date of publication of the annual report. However, as the enterprise may face considerably huge damages due to corporate crisis, the Company will continue to execute all the requirements of corporate governance so as to minimize the occurrence of corporate risk and such impact on the Company.

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

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

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

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

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

1. In terms of purchases

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

2. In terms of sales

The Company's sales volume to Company A was NTD 2,114,610,000 in 2018, accounting for 35.78% of the revenue, signifying a clear risk of concentration of sales. As the market demand for fingerprint identification and sensing chips increases, the Company continues to develop new products to match different end-use markets and actively develops new customers and provides new services, so as to reduce sales concentration, thus lowering the risk arising from sales concentration.

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

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

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

(15) Other Important Risks and Contingency Measures:

Information Security Policy

In order to implement the requirements of information security management, Egis focuses on its processes and systems, policy compliance, personnel training and technology application, and strengthens its capability in securing and protecting data, information system, equipment and network communications to effectively minimize the risks of theft, improper use, disclosure, tampering or destruction of information assets due to human error, deliberateness or natural disasters, in a bid to deliver on commitments to shareholders and customers and sustainable operation of the company.

Effective Operation and Continuous Improvement of Information Security Management

Management mechanisms include:

1. Establishing a set of complete specifications and define operation procedures to ensure the systematic implementation of information security management;
2. Identifying, protecting, detecting, responding to, and recovering information in a timely and effective manner with the use of technologies and tools;
3. Establishing a contingency and recovery operation process for information security anomalies so as to minimize their impact by quickly isolating and removing threats;
4. Performing disaster recovery drills on a regular basis for critical application system to ensure its effectiveness;
5. Performing social engineering drills and employee education for information security to comprehensively enhance their awareness of information security;
6. Examining the entire management system through auditing internally and externally on a regular basis every year to guarantee proper operation and uninterrupted improvement.

Evaluation of Information Security and Network Risks

Check the "Information Asset Inventory" regularly every year, perform risk assessment based on internal and external information security issues, information security incidents, and audit results and invest proper resources for high-risk projects to improve or increase control measures, so as to minimize or eliminate risks.

Impact of Significant Information Security Incidents and Contingency Measures

No significant incidents in relation to information security occurred in 2018.

In response to the dynamics of external changes and attack techniques, we will keep a close eye on the news and new technologies of information security and update our defensive and management measures, in a bid to block new information security threats and decrease operational risks.

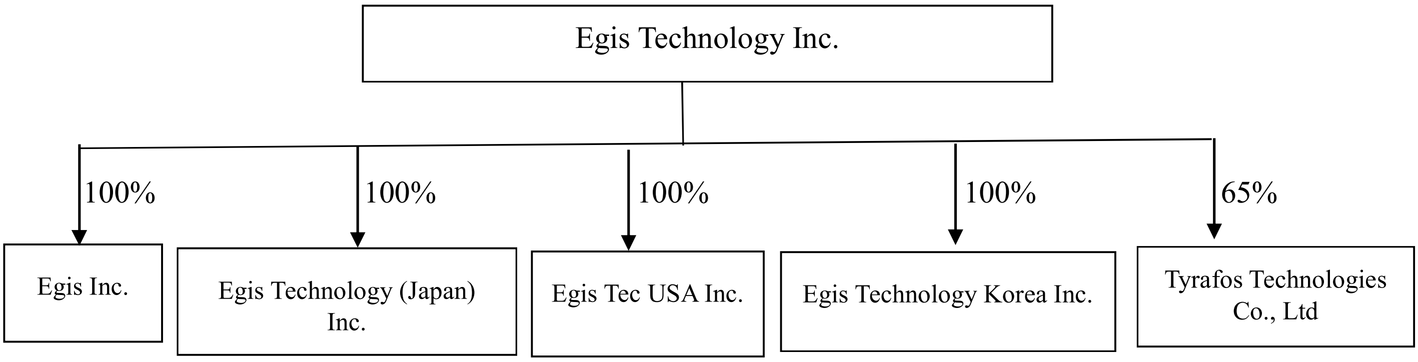
7. Other Significant Matters: Nil.

VIII. Special Notes

I. Relevant Information on Affiliated Enterprises

(1) Affiliated Enterprises

December 31, 2018



(2) Basic Information of Affiliated Enterprises

Unit: NTD'000

Name of Enterprise	Date of Establishment	Address	Paid-in Capital	Main business item
Egis Inc.	06/04/2007	Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112 , Cayman Islands	678,340	Holding company
Egis Technology (Japan) Inc.	08/18/2009	Mita Kokusai Bldg. 3F., 1-4-28, Mita, Minato-ku, Tokyo,108-0073 Japan	83,213	The sales of information security software, biometric application software and hardware
Egis Tec USA Inc.	08/15/2016	2050 Ringwood Ave., Ste. A, San Jose, CA 95131-1728	31,260	Technology development
Egis Technology (Korea) Inc.	11/23/2017	17 Daehak 4-ro, Ace Gwanggyo Tower #516, Yeongtong, Suwon, Gyeonggi	18,233	Customer service, business promotion and technical support
Tyrafos Technologies Co., Ltd	8/28/2017	Unit 1904 19/F Podium Plaza 5 Hanoi Road Tsim Sha Tsui KL	31,760	Technology development

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

(4) Industries covered by the operations of all affiliated enterprises: The design, development,

and production and sales of capacitive fingerprint sensor chips, and the integration of the IC design and solutions of domestic fingerprint sensors chips and software design.

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

December 31, 2018 Unit: Thousand Shares;%

Name of Enterprise	Position	Name or Representative	Shareholding	
			Number of Shares	Shareholding Ratio
Egis Inc.	Director	Representative of Egis Technology Inc.: LO, SEN CHOU	25,848	100%
Egis Technology (Japan) Inc.	General Manager	Representative of Egis Technology Inc.: Tang, Hsien Chih	5,840	100%
Egis Tec USA Inc.	Director	Representative of Egis Technology Inc.: Sky Su	1,000	100%
Egis Technology (Korea) Inc.	Director	Representative of Egis Technology Inc.: Jimmy Hsu	20	100%
Tyrafos Technologies Co., Ltd	Director	Representative of Egis Technology Inc.: LO, SEN CHOU	5,265	65%

(6) Overview of Business Operations of Affiliated Enterprises

December 31, 2018 Unit: NTD’000

Name of Enterprise	Capital	Total assets	Total liabilities	Net Value	Operating revenue	Operating income	Profit and loss for the current period (After Tax)	Earnings Per Share (NTD) (After Tax)
Egis Inc.	678,340	9,487	0	9,487	0	-185	-16	-0.0006
Egis Technology (Japan) Inc.	83,213	1,767	1,236	531	0	-8,661	-9,076	-1.55
Egis Tec USA Inc.	31,260	15,777	1,593	14,184	46,945	3,034	658	0.66
Egis Technology (Korea) Inc.	18,233	23,528	4,982	18,546	16,484	3,753	324	16.22
Tyrafos Technologies Co., Ltd	31,760	65,708	25,765	39,943	93,227	11,232	8,588	1.06

Note: If the affiliated enterprise is a foreign company, the relevant numbers shown will be based on conversion to

NTD using the exchange rate on the date of the report.

II. Status of Private Placement of Securities in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report: no such situation.

III. Shares in the Company Held or Disposed of by Subsidiaries in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report: no such situation.

IV. Other Necessary Supplementations:

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

OTC Trading Commitments	Status of Compliance with Commitments
In the "Operating Procedures of Acquisition or Disposal of Assets", the addition of "The Company shall not cease capital injections into Egis Inc.and Egis Technology (Japan) for the respective fiscal years in the future. Should the Company have to cease the capital injections into or to dispose of the aforementioned company due to strategic alliance considerations or other factors, the Company must gain the approval of Taipei Exchange and raise it to the Company's Board of Directors for the passing of a special resolution. "Should the said operating procedures be revised after the approval by the Board of Directors, it should be entered into the Market Observation Post System as material information disclosure and reported to Taipei Exchange for future reference.	1. The Company has provided the Letter of Commitment which will be disclosed in the prospectus. 2. The Company has passed the resolution on the addition of the content stated on the left to Article 5, Paragraph 6 of the "Operating Procedures of Acquisition or Disposal of Assets" during the Board meeting on August 13, 2015, and this has been entered into the Market Observation Post System as material information disclosure on the same day.

IX. Matters that Significantly Affected Shareholders' Equity and Prices of Securities Pursuant to Item 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the Last Fiscal Year and the Current Fiscal Year Up to the Date of Publication of the Annual Report: Nil

Egis Technology Inc.

Statement on Internal Control System

Date: March 14, 2019

In accordance with the result of self-assessment on the internal control system for 2018, the Company hereby declares as follows:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of the internal control system are the responsibilities of the Board of Directors and managers of the Company, and the Company has already established such a system. The purpose of the system is to provide reasonable guarantee for the achievement of goals such as effectiveness and efficiency of business operations (including profitability, performance and security of assets, etc.), reliability, timeliness, and transparency of reporting, as well as compliance with relevant regulatory requirements.
2. There are inherent limitations to even the most well-designed internal control system. Thus, an effective internal control system can only reasonably ensure the achievement of the three aforementioned goals. Moreover, changes in the operating environment and circumstances may also affect the effectiveness of the internal control system. The internal control system of the Company features a self-monitoring mechanism. Once identified, any deficiency will be rectified immediately by the Company.
3. The Company determines the effectiveness of the internal control system in design and enforcement in accordance with the “Regulations Governing Establishment of Internal Control Systems by Public Companies” (hereinafter referred to as “the Regulations”), which are instituted for judging the effectiveness of internal control systems. The internal control system comprises five components as specified in the Regulations for judging the effectiveness of internal control systems, and these components are examined throughout the internal control process: 1. Control Environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring Operation. Each of the elements in turn contains several items, Please refer to “the Regulations” for details on the aforementioned items.
4. The Company has adopted the aforementioned internal control system for the assessment on the effectiveness of the design and enforcement of the internal control system.
5. According to the findings of the aforementioned assessment, the Company holds that it is able to reasonably ensure the achievement of the aforementioned goals with the

internal control system (including the monitoring and management of the subsidiaries) as of December 31, 2018, including understanding of the effectiveness and efficiency in operation, reliability, timeliness, and transparency in reporting, as well as compliance with relevant regulatory requirements, and that the design and enforcement of the internal control system are effective.

6. This statement shall form an integral part of the annual report and prospectus of the Company, and will be announced to the public. If any fraudulent information, concealment, or unlawful practices are discovered in the content of the aforementioned information, the Company shall be held liable under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This statement was approved by the Board of Directors of the Company on March 14, 2019 in the presence of eight directors (including two proxies), who concurred unanimously on the contents of this statement with no objection. This statement is hereby provided.

Egis Technology Inc.

Chairman: Signature and Seal of LO, SEN CHOU

General Manager: Signature and Seal of RO, SHIH-HAO

Auditors’ Report of Audit Committee

It is hereby approved that

The Board of Directors delivered the individual financial statements and consolidated financial statements, business reports and earnings distribution table for the year of 2018 of the Company, among which the individual financial statements and consolidated financial statements for the year of 2018 were jointly audited by Accountant Steven Shih and Philip Tang from KPMG Accounting Firm and issued a check report.

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

2019 Annual General Meeting of Egis Technology Inc.
Audit committee convener: LIU, DING-JEN

March 14, 2019

Stock Code:6462

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017

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

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Egis Technology Inc. as of and for the year ended December 31, 2018 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 14, 2019

安侯建業聯合會計師事務所
KPMG
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68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)
Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of Egis Technology Inc.:

Opinion

We have audited the consolidated financial statements of Egis Technology Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 are stated as follows:

1. Impairment of goodwill

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

Other Matter

The Company has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unqualified audit opinion.

KPMG

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. 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 auditors' 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 14, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 Originally Issued in Chinese)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
	Assets	Amount	%	Amount	%
	Current assets:				
1100	Cash and cash equivalents (notes 6(a)(v))	$ 2,473,863	57	1,153,711	31
1110	Financial assets at fair value through profit or loss — current (notes 6(b)(v))	-	-	57,912	2
1170	Accounts receivable, net (notes 6(e)(r)(v))	614,327	14	729,289	20
130X	Inventories (note 6(f))	555,919	13	699,553	19
1470	Prepayments and other current assets	77,611	2	65,088	2
1476	Other financial assets — current (notes 6(a)(v) and 8)	28,681	1	533,416	15
	Total current assets	3,750,401	87	3,238,969	89
	Non-current assets:				
1543	Financial assets carried at cost — non-current (notes 6(d)(v))	-	-	93,835	3
1517	Non-current financial assets at fair value through other comprehensive income (notes 6(c)(v))	41,033	1	-	-
1550	Investments accounted for using equity method (note 6(g))	25,963	1	-	-
1600	Property, plant and equipment (note 6(i))	39,437	1	33,758	1
1780	Intangible assets (note 6(j))	214,695	5	200,641	6
1840	Deferred income tax assets (note 6(n))	40,361	1	50,690	1
1960	Prepayments for investments (notes 6(h)(v))	186,593	4	-	-
1995	Other non-current assets (note 6(v))	9,581	-	9,775	-
1980	Other financial assets — non-current (notes 6(a)(v))	472	-	-	-
	Total non-current assets	558,135	13	388,699	11
	Total assets	$ 4,308,536	100	3,627,668	100

		December 31, 2018		December 31, 2017	
	Liabilities and Equity	Amount	%	Amount	%
	Current liabilities:				
2100	Short-term borrowings (notes 6(k)(v)(w)(y) and 8)	$ 961,315	22	280,519	8
2170	Notes and accounts payable (notes 6(v)(w))	396,474	9	642,598	18
2230	Current tax liabilities	110,812	3	128,889	3
2399	Other payables (notes 6(t)(v)(w))	446,773	10	311,580	9
	Total current liabilities	1,915,374	44	1,363,586	38
	Non-current liabilities:				
2570	Deferred income tax liabilities (note 6(n))	1,038	-	-	-
	Total liabilities	1,916,412	44	1,363,586	38
	Equity (notes 6(o)(p)):				
3110	Common stock	709,743	16	704,908	19
3140	Common stock subscribed	930	-	4,415	-
3200	Capital surplus	963,159	22	942,038	26
	Retained earnings:				
3310	Legal reserve	70,722	2	11,403	-
3350	Unappropriated earnings	1,005,824	23	695,814	19
	Other equity interest:				
3411	Exchange differences on translation of foreign financial statements	3,935	-	3,238	-
3420	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(52,802)	(1)	-	-
3491	Deferred compensation cost arising from issuance of restricted stock	(30,647)	-	(97,734)	(2)
3500	Treasury stock	(278,740)	(6)	-	-
	Total equity	2,392,124	56	2,264,082	62
	Total liabilities and equity	$ 4,308,536	100	3,627,668	100

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017	
		Amount	%	Amount	%
4000	**Revenue (notes 6(r)(s))**	$ 5,909,333	100	4,731,908	100
5000	**Costs of revenue (notes 6(f)(i) and 12)**	(3,825,431)	(65)	(2,909,733)	(61)
	Gross profit	2,083,902	35	1,822,175	39
	Operating expenses (notes 6(e)(i)(j)(l)(m)(p)(t), 7 and 12):				
6100	Selling expenses	(293,377)	(5)	(354,003)	(8)
6200	Administrative expenses	(212,325)	(4)	(173,516)	(4)
6300	Research and development expenses	(852,023)	(14)	(518,013)	(11)
	Total operating expenses	(1,357,725)	(23)	(1,045,532)	(23)
	Operating income	726,177	12	776,643	16
	Non-operating income and loss:				
7010	Other income (notes 6(l)(u) and 7)	44,568	1	22,223	-
7020	Other gains and losses, net (notes 6(u)(w))	80,414	1	(53,774)	(1)
7050	Finance costs (note 6(u))	(9,917)	-	(9,206)	-
7070	Share of profit of joint ventures accounted for using equity method, net (note 6(g))	6,854	-	-	-
	Total non-operating income and loss	121,919	2	(40,757)	(1)
	Income before taxes	848,096	14	735,886	15
7950	Income tax expense (note 6(n))	(177,305)	(3)	(142,695)	(2)
	Net income	670,791	11	593,191	13
	Other comprehensive income (loss):				
8310	**Items that will not be reclassified subsequently to profit or loss:**				
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income (notes 6(o)(v))	(53,977)	(1)	-	-
8349	Income tax related to items that will not be reclassified subsequently to profit or loss	-	-	-	-
		(53,977)	(1)	-	-
8360	**Items that may be reclassified subsequently to profit or loss:**				
8361	Exchange differences on translation of foreign operations (notes 6(g)(o))	697	-	(2,608)	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
		697	-	(2,608)	-
	Other comprehensive income (loss), net	(53,280)	(1)	(2,608)	-
	Comprehensive income	$ 617,511	10	590,583	13
	Earnings per common share (in New Taiwan dollars) (note 6(q)) :				
9750	Basic earnings per share	$	9.62		8.50
9850	Diluted earnings per share	$	9.54		8.41

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent									
				Retained earnings		Total other equity interest				
	Common stock	Common stock subscribed	Capital Surplus	Legal reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation cost arising from issuance of restricted stock	Treasury stock	Total equity
Balance at January 1, 2017	$ 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
Effects of retrospective application	-	-	-	-	-	-	1,175	-	-	1,175
Balance at January 1, 2018 after adjustments	704,908	4,415	942,038	11,403	695,814	3,238	1,175	(97,734)	-	2,265,257
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	-	59,319	(59,319)	-	-	-	-	-
Cash dividends to shareholders	-	-	-	-	(301,462)	-	-	-	-	(301,462)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(278,740)	(278,740)
Retirement of restricted shares of stock issued to employees	(60)	-	60	-	-	-	-	-	-	-
Issuance of common stock from exercise of employee stock options	4,895	(3,485)	15,508	-	-	-	-	-	-	16,918
Compensation cost of employee stock options	-	-	2,810	-	-	-	-	-	-	2,810
Compensation cost arising from restricted shares of stock issued to employees	-	-	2,743	-	-	-	-	67,087	-	69,830
Net income in 2018	-	-	-	-	670,791	-	-	-	-	670,791
Other comprehensive income in 2018	-	-	-	-	-	697	(53,977)	-	-	(53,280)
Total comprehensive income in 2018	-	-	-	-	670,791	697	(53,977)	-	-	617,511
Balance at December 31, 2018	$ 709,743	930	963,159	70,722	1,005,824	3,935	(52,802)	(30,647)	(278,740)	2,392,124

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		2018	2017
Cash flows from operating activities:			
Income before income taxes	$	848,096	735,886
Adjustments for:			
Adjustments to reconcile profit (loss):			
Depreciation		15,545	14,125
Amortization		24,589	22,016
Expected credit loss (gain) / Provision for bad debt expense		(1,300)	24,560
Net loss (gain) on financial assets at fair value through profit or loss		755	(71)
Interest expense		9,917	9,206
Interest income		(41,767)	(15,477)
Share-based payments		72,640	49,569
Share of loss of joint ventures accounted for using equity method		(6,854)	-
Loss on disposal of property, plant and equipment		11	243
Total adjustments to reconcile profit		73,536	104,171
Changes in operating assets and liabilities:			
Changes in operating assets:			
Accounts receivable		116,262	(346,152)
Inventories		143,634	(150,762)
Prepayments and other current assets		(13,763)	(17,756)
Total changes in operating assets		246,133	(514,670)
Changes in operating liabilities:			
Notes and accounts payable		(246,124)	174,479
Other payables		130,648	105,308
Total changes in operating liabilities		(115,476)	279,787
Total changes in operating assets and liabilities		130,657	(234,883)
Cash provided by operations		1,052,289	605,174
Interest received		41,045	11,172
Interest paid		(9,501)	(9,115)
Income taxes paid		(178,646)	(14,438)
Net cash provided by operating activities		905,187	592,793

See accompanying notes to consolidated financial statements.

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

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from investing activities:		
Purchase of financial assets at fair value through profit or loss	-	(57,841)
Proceeds from disposal of financial assets at fair value through profit or loss	57,157	-
Investment in financial assets carried at cost	-	(73,835)
Investment in joint venture	(19,517)	-
Increase in prepayments for investments	(186,593)	-
Additions to property, plant and equipment	(21,222)	(28,075)
Proceeds from disposal of property, plant and equipment	-	13
Additions to intangible assets	(38,643)	(5,521)
Increase (decrease) in other financial assets	504,985	(220,999)
Increase (decrease) in refundable deposits	194	(3,766)
Net cash provided by (used in) investing activities	296,361	(390,024)
Cash flows from financing activities:		
Proceeds from short-term borrowings	3,575,763	1,929,570
Repayments of short-term borrowings	(2,894,967)	(1,901,744)
Cash dividends distributed to shareholders	(301,462)	-
Proceeds from exercise of employee stock options	16,918	65,860
Purchase of treasury stock	(278,740)	-
Net cash provided by financing activities	117,512	93,686
Effects of foreign exchange rate changes	1,092	(2,539)
Net increase in cash and cash equivalents	1,320,152	293,916
Cash and cash equivalents at beginning of the period	1,153,711	859,795
Cash and cash equivalents at end of the period	$ 2,473,863	1,153,711

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Issued in Chinese)
EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(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, 2008, 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 thousand 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 thousand 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 14, 2019.

EGIS TECHNOLOGY INC. AND 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, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "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
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 significant changes are as follows:

(i) 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 the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sales of products, revenue is currently recognized based on the individual terms of each sales agreement when the related significant risks and rewards of ownership are transferred to the customers. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The above mentioned changes in accounting policy did not cause any significant adjustment on the financial statements.

(ii) 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.

The Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(g).

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities.

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

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(g).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below.

· Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

· The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

— 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.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018. There is no change in the categories and carrying amounts of financial liabilities.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables (note 1)	$ 1,153,711	Amortized cost	$ 1,153,711
Open-end mutual fund	Designated as at FVTPL (note 2)	57,912	Mandatorily at FVTPL	57,912
Equity instruments	Carried at cost (note 3)	93,835	FVOCI	95,010
Accounts receivables	Loans and receivables (note 1)	729,289	Amortized cost	729,289
Other financial assets-current	Loans and receivables (note 1)	533,416	Amortized cost	533,416
Other non-current assets (refundable deposits)	Loans and receivables (note 1)	9,775	Amortized cost	9,775

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note1: Cash and cash equivalents, accounts receivable, other financial assets and other non-current assets (refundable deposits) that were classified as loans and receivables under IAS 39 are now classified at amortized cost. There is no material impact on the adoption of IFRS 9.

Note2: Under IAS 39, these investments were designated as at FVTPL. In accordance with IFRS 9, the cash flow characteristics for fund are not solely payments of principal and interest on the principal amount outstanding, therefore, they are classified as mandatorily measured at FVTPL.

Note3: These equity securities represent investments that the Group intends to hold for long term strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI, resulting in an increase of $1,175 thousand in those assets and other equity interest recognized on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Other equity adjustments
Fair value through other comprehensive income					
Beginning balance of measured at cost (IAS 39)	$ 93,835	-	-		-
Measured at cost to FVOCI	-	-	1,175		1,175
Total	$ 93,835	-	1,175	95,010	1,175

(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 present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(y).

(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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements.

(i) IFRS 16"Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to initially apply IFRS 16 using the modified retrospective approach with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- apply to exemption, and not to recognize a right-of-use asset and a lease liability to leases for which the lease term ends within 12 months of the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices and staff dormitory. The Group estimates that both the right-of-use assets and the lease liabilities to increase by $114,259 on January 1, 2019. The Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sub-lease.

The actual impacts of adopting the abovementioned new 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 International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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

4. Summary of significant accounting policies

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

1) Financial assets meaured at fair value through profit or loss are measured at fair value; and

2) Fair value through other comprehensive income (Available-for-sale financial assets) 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 consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

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

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

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

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

			Shareholding	
Name of Investor	**Name of Subsidiary**	**Principal Activity**	**December 31, 2018**	**December 31, 2017**
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 %	100 % (Note 1)

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 NT$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.

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(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 are translated into the presentation currency of the Group' s consolidated financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the 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

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). A regular way purchases or sales of financial assets is recognized and derecognized, as applicable, using trade date accounting.

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

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

·it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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2) Fair value through other comprehensive income (FVOCI)

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

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Fair value through profit or loss (FVTPL)

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

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

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

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

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Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

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

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

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

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial assets (policy applicable before January 1, 2018)

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. A regular way purchases or sales of financial assets is recognized or derecognized, as applicable, using trade date accounting.

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.

(Continued)

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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)

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.

(iii) 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.

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) Joint arrangements - Joint Venture

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

When assessing the classification of a joint arrangement, the Group shall consider the structure and legal form of the arrangement, the terms in the contractual arrangement, and other facts and circumstances.

Investments in joint ventures are accounted for using the equity method and are recognized initially at cost, plus, any transaction costs. The carrying amount of the investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) will be tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The consolidated financial statements include the Group' s share of the profit or loss and other comprehensive income of joint venture after adjustments to align their accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases. The Group recognizes any changes, proportionately with the shareholding ratio under capital surplus, when a joint venturer' s equity changes due to reasons other than the profit or loss and comprehensive income, which do not result in changes in the Group's ownership percentage of the joint venture.

Unrealized profits resulting from transactions between the Group and a joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses on transactions with joint venture are eliminated in the same way, except to the extent that the underlying asset is impaired.

(j) 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.

(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- 3 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.

(Continued)

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(k) 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 and are not recognized in the Group's balance sheets.

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

(l) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

The residual 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.

(m) 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.

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(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.

(n) Treasury stock

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

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

(o) Revenue recognition

(i) Revenue from contracts with customers (policy applicable from January 1, 2018)

1) Sale of goods

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

2) Financing components

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

(ii) Revenue recognition (policy applicable before January 1, 2018)

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.

1) 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.

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2) Services

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

3) Interest income

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

(p) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term employee benefits

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

(q) Share-based payment

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.

(r) 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.

(Continued)

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

(i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and

(iii) Temporary differences arising from initial recognition of goodwill.

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

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

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

(s) 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.

(Continued)

(t) Earnings per share ("EPS")

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

(u) Operating segments

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

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

(a) Impairment of goodwill

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

Refer to note 6(j) 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.

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

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

6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 728	486
Bank deposits	513,814	409,017
Time deposits	1,867,176	625,168
Repurchase agreements—bond	92,145	119,040
	$ 2,473,863	1,153,711

As of December 31, 2018 and 2017, the time deposits, with original maturities of between three months and one year, amounted to $9,215 and $426,528, respectively, which were classified as other financial assets—current. As of December 31, 2018, the time deposits, with original maturities of more than one year, amounted to $472, which was classified as other financial assets—non-current.

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

	December 31, 2018	December 31, 2017
Open-end mutual fund	$ -	57,912

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

	December 31, 2018
Equity instruments at fair value through other comprehensive income :	
Unlisted common shares (Please refer note 13(a).3)	$ 41,033

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as financial assets carried at cost–non-current on December 31, 2017.

No strategic investments were disposed in 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(Continued)

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(d) Financial assets carried at cost—non-current

	December 31, 2017
Unlisted common shares	$ 93,835

The aforementioned investments held by the Group were measured at amortized cost as of December 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018.

(e) Accounts receivable, net

	December 31, 2018	December 31, 2017
Accounts receivable	$ 616,524	753,849
Less: Allowance for impairment	(2,197)	(24,560)
	$ 614,327	729,289

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. The loss allowance provision as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 614,327	0.0001%	-
More than 180 days past due	2,197	100%	2,197
	$ 616,524		2,197

As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of accounts receivable, and there are no accounts receivable that are past due but has not impaired on December 31, 2017.

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

	December 31, 2018	December 31, 2017	
		Individually assessed impairment	Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	$ 24,560	-	-
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	24,560		
Impairment losses recognized	-	24,560	-
Impairment loss reversed	(1,300)	-	-
Amounts written off	(22,708)	-	-
Foreign exchange losses	1,645	-	-
Balance on December 31, 2018 and 2017	$ 2,197	24,560	-

(f) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 17,249	155,197
Work in process	508,556	535,676
Finished goods	30,114	8,680
	$ 555,919	699,553

The amounts of inventories recognized as cost of revenue were as follows:

	2018	2017
Cost of inventories sold	$ 3,677,862	2,791,572
(Reversal of) write-down of inventories	(14,461)	71,535
Loss on scrap	121,256	15,307
Royalty cost	43,155	31,195
Others	(2,381)	124
	$ 3,825,431	2,909,733

The write-down of inventories to net realizable value amounted to $71,535 in 2017; the reversal of write-down amounted to $14,461 due to the disposal of slow-moving inventories in 2018. The write-down and reversal are included in costs of revenue.

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(g) Investments accounted for using equity method

The Group's financial information on its investments in individually insignificant joint venture accounted for using equity method at the reporting date was as follows. The financial information is included in the consolidated financial statements.

	December 31, 2018	December 31, 2017
Tyrafos Technologies Co., Limited	$ 25,963	-

	2018	2017
Attributable to the Group:		
Net income	$ 6,854	-
Other comprehensive loss	(408)	-
Total comprehensive income	$ 6,446	-

(h) Prepayments for investments

As of December 31, 2018, the Group invested the amount of $186,593 to acquire the common shares of its investees (Igistec Co., Ltd., AIStorm Inc., and Sirius Wireless Pte. Ltd.) for the development techniques of its optical sensing and fingerprint identification.

(i) Property, plant and equipment

	Tooling	Research and development equipment	Leasehold improvement	Other equipment	Total
Cost:					
Balance at January 1, 2018	$ 22,404	11,343	7,912	38,270	79,929
Additions	1,284	8,290	607	11,041	21,222
Disposals	(8,345)	(240)	-	(886)	(9,471)
Effect of exchange rate changes	-	-	9	30	39
Balance at December 31, 2018	$ 15,343	19,393	8,528	48,455	91,719
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
Depreciation:					
Balance at January 1, 2018	$ 21,882	7,127	2,117	15,045	46,171
Depreciation	576	3,334	2,410	9,225	15,545
Disposals	(8,345)	(240)	-	(875)	(9,460)
Effect of exchange rate changes	-	-	7	19	26
Balance at December 31, 2018	$ 14,113	10,221	4,534	23,414	52,282

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	Tooling	Research and development equipment	Leasehold improvement	Other equipment	Total
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
Carrying amounts:					
Balance at December 31, 2018	$ 1,230	9,172	3,994	25,041	39,437
Balance at December 31, 2017	$ 522	4,216	5,795	23,225	33,758

(j) Intangible assets

	Goodwill	Patent	Technology	Computer software	Total
Costs:					
Balance at January 1, 2018	$ 106,827	25,714	84,726	14,873	232,140
Additions	-	-	-	38,643	38,643
Balance at December 31, 2018	$ 106,827	25,714	84,726	53,516	270,783
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	$ 106,827	25,714	84,726	14,873	232,140
Accumulated amortization and impairment loss:					
Balance at January 1, 2018	$ -	9,302	13,239	8,958	31,499
Amortization	-	7,023	10,591	6,975	24,589
Balance at December 31, 2018	$ -	16,325	23,830	15,933	56,088
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	$ -	9,302	13,239	8,958	31,499
Carrying amount:					
Balance at December 31, 2018	$ 106,827	9,389	60,896	37,583	214,695
Balance at December 31, 2017	$ 106,827	16,412	71,487	5,915	200,641

(i) Amortization

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

	2018	2017
Operating expenses	$ 24,589	22,016

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(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:

	December 31, 2018	December 31, 2017
Biometric authentication IC sensor and its application	$ 106,827	106,827

At the end of each reporting period, the Group's goodwill is tested annually for impairment. The recoverable amount of a CGU was determined based on the value in use. As of December 31, 2018 and 2017, no impairment loss was recognized for the biometric authentication IC sensor and its application based on the tested result.

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

	December 31, 2018	December 31, 2017
Discount rates (before tax)	13.05 %	13.10 %
Revenue growth rates	10%～52%	5%～48%

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%.

(k) Short-term borrowings

	December 31, 2018	December 31, 2017
Secured bank loans	$ 961,315	280,519
Unused credit facilities	$ 1,244,425	1,134,201
Interest rate	1.15%~3.04%	1.52%~2.73%

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

(l) Operating lease

Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018	December 31, 2017
Less than one year	$ 34,255	33,049
Between one year and five years	86,138	108,425
More than five years	-	5,619
	$ 120,393	147,093

(Continued)

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

For the years ended December 31, 2018 and 2017, rental expenses recognized in profit or loss in respect of operating leases were $33,187 and $22,660 respectively, and the sub-lease income recognized in other income in respect of leasing part of office space were $378 and $0, respectively.

(m) Employee benefits

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

For the years ended December 31, 2018 and 2017, the Group recognized the pension expenses of $17,075 and $13,352, respectively, in relation to the defined contribution plans.

(n) Income taxes

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 commencing FY 2018.

(i) Income tax expense

	2018	2017
Current income tax expense		
Current period	$ 171,675	139,466
Adjustments for prior years	(5,737)	-
	165,938	139,466
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	20,312	(26,434)
Adjustment in tax rate	(8,945)	-
Changes in tax losses	-	29,663
	11,367	3,229
Income tax expense	$ 177,305	142,695

In 2018 and 2017, there were no income tax expense recognized in other comprehensive income.

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Reconciliation between the expected income tax expense calculated based on the Company's statutory tax rate and the actual income tax expense reported in the consolidated statements of comprehensive income for 2018 and 2017 were as follows:

		2018	2017
Income before income tax	$	848,096	735,886
Income tax using the Company's statutory tax rate	$	169,619	125,101
Adjustment in tax rate		(8,945)	-
Adjustments for prior years		(5,737)	-
Income tax credit		(14,476)	(6,222)
Change in unrecognized temporary differences		(1,026)	3,691
Withholding tax in foreign jurisdiction		11	4,632
Recognition of previously unrecognized tax losses		-	(1,266)
Undistributed earnings additional tax at 10%		23,241	10,262
Others		14,618	6,497
	$	177,305	142,695

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

As of December 31, 2018 and 2017, 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:

		December 31, 2018	December 31, 2017
Losses in foreign subsidiaries	$	154,528	129,971
Deductible temporary differences-Technology		-	2,250
	$	154,528	132,221

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2018 and 2017 were as follows:

Deferred income tax assets:

		Tax losses carryforwards	Inventory provisions	Others	Total
Balance at January 1 , 2018	$	-	31,806	18,884	50,690
Recognized in profit or loss		-	2,721	(13,050)	(10,329)
Balance at December 31, 2018	$		34,527	5,834	40,361
Balance at January 1 , 2017	$	29,663	19,645	5,896	55,204
Recognized in profit or loss		(29,663)	12,161	12,988	(4,514)
Balance at December 31, 2017	$	-	31,806	18,884	50,690

(Continued)

Deferred income tax liabilities:

		Unrealized foreign currency exchange gain
Balance at January 1 , 2018	$	-
Recognized in profit or loss		1,038
Balance at December 31, 2018	$	1,038
Balance at January 1 , 2017	$	1,285
Recognized in profit or loss		(1,285)
Balance at December 31, 2017	$	-

(iii) The Company' s income tax returns for all fiscal years through 2016 were examined and approved by the R.O.C. income tax authorities.

(o) Capital and other equity

(i) Common stock

As of December 31, 2018 and 2017, the Company's authorized shares of common stock, at $10 par value per share, consisted of 100,000 thousand shares, of which 70,974 thousand shares and 70,491 thousand shares, respectively, were issued and outstanding.

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

	Ordinary shares	
	2018	2017
Balance at January 1	70,036	68,839
Exercise of employee stock options	490	1,080
Vested restricted shares of stock issued to employees	185	117
Purchase of treasury stock	(2,600)	-
Balance at December 31	68,111	70,036

As of December 31, 2018 and 2017, the related registration process had been completed except for 93 thousand shares and 442 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, 2018	December 31, 2017
Paid-in capital in excess of par value	$ 881,352	817,200
Compensation cost of employee stock options	23,757	25,766
Restricted stock issued to employees	58,050	99,072
	$ 963,159	942,038

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

(iii) Retained earnings and dividend policy

1) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to its shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

3) Earnings distribution

The Company's articles of incorporation stipulate that at least 10% of annual net income, after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance, together with the unappropriated earnings from the previous years, can be distributed as dividends to stockholders. The appropriation of earnings should be proposed by the Board of Directors and approved by the shareholders.

(Continued)

Earnings are distributed in consideration of long-term interest of its shareholders, operating and the overall economic environment and the Company' s long-term development and stability in its financial position. Earnings can be distributed by stock or cash, referring to the dividend ratio of others in the same industry and capital market, in which a cash dividend comprises at least 20% of the total dividend distribution.

The appropriation of 2017 earnings was resolved by the shareholder's meeting held on May 30, 2018, and the distribution to shareholders were as follows:

	2017	
	Dividends per share (NT$)	Amount
Dividends distributed to ordinary shareholders：		
Cash	$ 4.25	301,462

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

On March 14, 2019, the Company's Board of Directors resolved to appropriate the 2018 earnings. These earnings were appropriated as follows:

	2018	
	Dividends per share (NT$)	Amount
Dividends distributed to ordinary shareholders：		
Cash	$ 8.10	554,844

(iv) Treasury shares

In 2018, in accordance with Article 28-2 of the Securities and Exchange Act, the Company purchased 2,600 thousand of its own common shares for an aggregate amount of $278,740, in order to maintain and motivate its employees.

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

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(v) Other equity

		Exchange differences on translation of foreign operations	Deferred compensation cost arising from issuance of restricted stock	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income
Balance at January 1, 2018	$	3,238	(97,734)	-
Effects of retrospective application		-	-	1,175
Balance at January 1, 2018 after adjustments		3,238	(97,734)	1,175
Foreign exchange difference arising from translation of foreign operations:				
The Group		1,105	-	-
Joint Venture		(408)	-	-
Deferred compensation cost		-	67,087	-
Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income		-	-	(53,977)
Balance at December 31, 2018	$	3,935	(30,647)	(52,802)
Balance at January 1, 2017	$	5,846	-	-
Foreign exchange differences arising from translation of foreign operations:				
The Group		(2,608)	-	-
Deferred compensation cost		-	(97,734)	-
Balance at December 31, 2017	$	3,238	(97,734)	-

(p) Share-based payment

(i) A summary of the Group's stock option plans and related information 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):

	2015	2014	
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.

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

	2018		2017	
	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares
Outstanding, beginning of year	$ 112.76	643,000	95.80	1,511,000
Granted	-	-	-	-
Exercised	119.99	(141,000)	82.02	(803,000)
Forfeited	127.18	(4,000)	98.20	(65,000)
Outstanding, end of year	110.60	498,000	112.76	643,000
Exercisable, end of year	110.60	498,000	106.43	447,000

December 31, 2018				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/12	285,000	0.96	$ 98.20	285,000
2015	213,000	1.84	127.18	213,000
	498,000			498,000

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
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December 31, 2017				
Year of grant	**Number outstanding**	**Weighted-average remaining contractual years**	**Weighted-average exercise price**	**Number exercisable**
2014/12	320,000	1.96	$ 98.20	320,000
2015	323,000	2.84	127.18	127,000
	643,000			447,000

(ii) Restricted stock

During the meeting on June 22, 2017, the Company's shareholders approved a resolution to issue 650,000 shares of restricted stock to full-time employees who conformed to certain requirements. The Company 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

Type	2017 condition 1	2017 condition 2
Granted date	2017.12.04	2017.12.04
Number of shares granted	350,000 shares	222,000 shares
Vested period	The restricted shares will be vested into 116,600, 116,700 and 116,700 shares at the year end of 2017, 2018, 2019, respectively, based on the individual performance of the employee.	The restricted shares will be vested into 74,000, 74,000 and 74,000 shares at the year end of 2018, 2019, 2020, respectively, based on the individual performance of the employee.

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

	2018	2017
Balance at January 1	572	-
Restricted stock issued	-	572
Forfeited	(9)	-
Balance at December 31	563	572
Accumulated vested shares	(302)	(117)
Unvested shares	261	455

(Continued)

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

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

	2018	2017
Employee stock options	$ 2,810	14,993
Restricted stock	69,830	34,576
	$ 72,640	49,569

(q) Earnings per share ("EPS")

(i) Basic earnings per share

	2018	2017
Net income attributable to the shareholders of the Company	$ 670,791	593,191
Weighted-average number of ordinary shares outstanding (in thousands)	69,710	69,814
Basic earnings per share (in New Taiwan dollars)	$ 9.62	8.50

(ii) Diluted earnings per share

	2018	2017
Net income attributable to the shareholders of the Company	$ 670,791	593,191
Weighted-average number of ordinary shares outstanding (in thousands)	69,710	69,814
Effect of dilutive potential common stock:		
Stock options	91	575
Employees compensation	271	179
Restricted stock	218	-
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	70,290	70,568
Diluted earnings per share (in New Taiwan dollars)	$ 9.54	8.41

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

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

		2018
Primary geographical markets:		
Taiwan	$	9,551
Asia		5,899,782
	$	5,909,333
Major products/ services line:		
Biometric authentication IC sensor and its application	$	5,903,424
Data security and its application		4,723
Non-recurring engineering service revenue		1,186
	$	5,909,333

For detals on revenue for the year ended December 31, 2017, please refer to note 6(s).

(ii) Contract balances

		December 31, 2018	January 1, 2018
Accounts receivable	$	616,524	753,849
Less: Allowance for impairment		(2,197)	(24,560)
Total	$	614,327	729,289

For details on accounts receivable and allowance for impairment, please refer to note 6(e).

(s) Revenue

		2017
Revenue from sale of goods and royalty revenue	$	4,728,540
Revenue from service provided		3,368
	$	4,731,908

(t) 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.

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

For the years ended December 31, 2018 and 2017, the Company accrued its remuneration to employees amounting to $46,308 and $38,934, respectively, and its remuneration to directors amounting to $8,972 and $7,787, respectively, which were calculated based on the net profits before tax of each period (excluding the remuneration to employees and directors), multiplied by the distribution ratio of remuneration to employees and directors under the Company's articles of incorporation, and recognized as operating expenses. The differences between the aforementioned accrued remuneration and the amounts approved by the Board of Directors were $0 and $1, repectively, which shall be accounted for as changes in accounting estimates. The related information would be available at the Market Observation Post System website.

(u) Non-operating income and loss

(i) Other income

		2018	2017
Interest income	$	41,767	15,477
Sub-lease income		378	-
Grants for research and development		-	1,880
Others		2,423	4,866
	$	44,568	22,223

(ii) Other gains and losses

		2018	2017
Losses on disposal of property, plant and equipment	$	(11)	(243)
Foreign exchange gains (losses), net		84,481	(52,815)
Net gain (loss) on financial assets measured at fair value through profit or loss		(755)	71
Others		(3,301)	(787)
	$	80,414	(53,774)

(iii) Finance costs

		2018	2017
Interest expense on bank loans	$	(9,917)	(9,206)

(v) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss	$ -	57,912
Financial assets at fair value through other comprehensive income	41,033	-
Financial assets measured at amortized cost (Loans and receivables):		
Cash and cash equivalents	2,473,863	1,153,711
Accounts receivable	614,327	729,289
Other financial assets－current and non-current	29,153	533,416
Refundable deposits	9,581	9,775
	3,126,924	2,426,191
Available-for-sale financial assets :		
Financial assets carried at cost	-	93,835
Total	$ 3,167,957	2,577,938

2) Financial liabilities

	December 31, 2018	December 31, 2017
Financial liabilities measured at amortized cost:		
Short-term borrowings	$ 961,315	280,519
Notes and accounts payable	396,474	642,598
Accrued expenses	252,916	169,217
	$ 1,610,705	1,092,334

(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.

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

2) Financial instruments measured at fair value

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value on a recurring basis. The table below analyzes the financial instruments measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The different levels have been defined as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	December 31, 2018				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Non－current financial assets at fair value through other comprehensive income :					
Unlisted common shares	$ 41,033	-	-	41,033	41,033

	December 31, 2017				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Open-end mutual fund	$ 57,912	57,912	-	-	57,912

There are no transfers between fair value levels for the years ended December 31, 2018 and 2017. Reconciliation of Level 3 fair values was as follow:

	2018
Opening balance	$ 95,010
Loss recognized in other comprehensive income	(53,977)
Ending Balance	$ 41,033

3) Valuation techniques and assumptions used in fair value measurement

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

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

The fair value of unlisted common shares is estimated by using the market approach and is determined by reference to valuations of similar companies, recent financing acivities, market conditions and other economic indicators. The significant unobservable input is the liquidity discount. Since the possible changes in liquidity discount did not cause any significant potential impact on the financial statements, therefore, the quantitative information need not be disclosed.

(w) Financial risk management

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

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

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

(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, 2018 and 2017, 81% and 85%, respectively, of accounts receivable were concentrated on three customers, thus, credit risk is significantly centralized.

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

(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, 2018 and 2017, the Group had unused credit facilities of $1,244,425 and $1,134,201, respectively.

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

	Contractual cash flows	Within 1 year	1-5 years
December 31, 2018			
Short-term borrowings carrying floating interest rates	$ 961,972	961,972	-
Notes and accounts payable	396,474	396,474	-
Accrued expenses	252,916	252,916	-
	$ 1,611,362	1,611,362	-
December 31, 2017			
Short-term borrowings carrying floating interest rates	280,741	280,741	-
Notes and accounts payable	642,598	642,598	-
Accrued expenses	169,217	169,217	-
	$ 1,092,556	1,092,556	-

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, purchases and bank loans 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

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, 2018			December 31, 2017		
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)
Financial assets						
USD	$ 96,587	30.715	2,966,670	73,652	29.76	2,191,884
Financial liabilities						
USD	18,284	30.715	561,578	34,763	29.76	1,034,547

b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of cash and cash equivalents, accounts receivables, notes and accounts payable and bank loans that are denominated in a currency other than the respective functional currencies of Group entities. As of December 31, 2018 and 2017, a 1% depreciation of the TWD against the USD would have increased the Group's income before tax for the years ended December 31, 2018 and 2017 by $24,050, and $11,574, respectively. This analysis assumes that all other variables remain constant and is performed on the same basis for the current and prior periods.

c) Gains or losses on monetary items

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

	2018		2017	
	Foreign exchange gains (losses)	Exchange rate	Foreign exchange gains (losses)	Exchange rate
Financial assets				
USD:TWD	$ 91,196	30.715	(92,489)	29.76
Financial liabilities				
USD:TWD	(8,613)	30.715	37,726	29.76

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, 2018 and 2017 would have been $9,613 and $2,805, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

3) Other market price risk

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

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

(x) 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.

(y) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	January 1,2018	Cash flows	Non-cash changes	December 31, 2018
Short-term borrowings	$ 280,519	680,796	-	961,315

7. Related-party transactions

(a) Names and relationship with related parities

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

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

(Continued)

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

(b) Significant transactions with related parties:

(i) Research and development expenses

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

	2018	2017
Joint venture:		
Tyrafos Technologies Co., Limited, Taiwan Branch	$ 58,493	-
Yinscorp Ltd.	24,952	-
	$ 83,445	-

(ii) Leases

The joint venture leased an office building from the Group. The rental amount is based on the market price in the adjacent area. For the year ended December 31, 2018, the rental income was $313, and the related receivables were collected.

(iii) Guarantee

As of December 31, 2017, the Group's credit facilities from financial institutions amounting to $715,920 were guaranteed by the Group's chairman, Mr. Steve Ro.

(c) Compensation for key management personnel

	2018	2017
Short-term employee benefits	$ 94,810	74,448
Post-employment benefits	765	647
Share-based payments	43,101	36,556
	$ 138,676	111,651

Refer to note 6(p) for information on share-based payment.

8. Pledged assets

Assets	Pledged to secure	December 31, 2018	December 31, 2017
Other financial assets-current (time deposits)	Deposit for purchase fulfillment	$ 10,000	10,000
Other financial assets-current (time deposits)	Credit facilities	-	89,280
Other financial assets—non-current (time deposits)	Performance guarantee	472	-
		$ 10,472	99,280

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

9. Significant commitments and contingencies

As of December 31, 2018 and 2017, the Group had issued promissory notes amounting to $2,205,740 and $1,414,720, respectively, as collaterals for obtaining credit facilities from financial institutions.

10. Significant loss from casualty: None.

11. Significant subsequent events: None.

12. Others

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

By function / By item	2018 Cost of sales	2018 Operating expenses	2018 Total	2017 Cost of sales	2017 Operating expenses	2017 Total
Employee benefits:						
Salaries	-	537,812	537,812	-	413,008	413,008
Labor and health insurance	-	21,348	21,348	-	17,354	17,354
Pension cost	-	17,075	17,075	-	13,352	13,352
Remuneration of directors	-	9,360	9,360	-	8,057	8,057
Others	-	25,466	25,466	-	23,759	23,759
Depreciation	1,983	13,562	15,545	1,514	12,611	14,125
Amortization	-	24,589	24,589	-	22,016	22,016

13. Additional disclosures

(a) Information on significant transactions:

The followings were the information on significant transactions required by the " Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the year ended December 31, 2018:

(i) Financing provided to other parties: None.

(ii) Guarantees and endorsements provided to other parties: None.

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Gingy Technology Inc.	-	Financial assets at fair value through other comprehensive income	859	10,788	3.51 %	10,788	
The Company	THEIA LIMITED	-	Financial assets at fair value through other comprehensive income	100,000	30,245	11.20 %	30,245	
The Company	Integrated Digital Technologies, Inc.	-	Financial assets at fair value through other comprehensive income	4,000	-	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.

(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.

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the years ended December 31, 2018 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

				Original Investment Amount		Balance as of December 31, 2018			Maximum Ownership during 2018				
Investor	Investee	Location	Main Businesses and Products	December 31, 2018	December 31, 2017	Shares (in thousands)	Percentage of Ownership	Carrying Value	Shares (in thousands)	Percentage of Ownership	Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,487	25,848	100.00 %	(16)	(16)	Parent/ subsidiary
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	83,213	83,213	5,840	100.00 %	531	5,840	100.00 %	(9,076)	(9,076)	Parent/ subsidiary
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	14,183	1,000	100.00 %	658	658	Parent/ subsidiary
The Company	Egis Technology Korea Inc	Korea	Customer service, business promotion and technical support	18,233	2,923	20	100.00 %	18,546	20	100.00 %	324	324	Parent/ subsidiary
The Company	Tyrafos Technologies Co., Limited	Hong Kong	Technology development	19,517	-	5,265	65.00 %	25,963	5,265	65.00 %	8,588	6,854	Joint venture

Note: The above intercompany transactions of subsidiaries 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 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 2018 and 2017, there were no material inconsistency between the reportable segment profit or loss and the consolidated financial statements.

(b) Product information

Revenues from external customers are detailed below:

Products and services		2018	2017
Biometric authentication IC sensor and its application	$	5,903,424	4,724,571
Data security and its application		4,723	3,969
Non-recurring engineering service revenue		1,186	3,368
	$	5,909,333	4,731,908

(Continued)

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

(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	2018	2017
Revenues from external customers are detailed below:		
Asia	$ 5,899,782	4,699,941
Taiwan	9,551	31,967
	$ 5,909,333	4,731,908

Region	December 31, 2018	December 31, 2017
Non-current assets:		
Taiwan	$ 251,437	233,752
Others	2,695	647
	$ 254,132	234,399

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

	2018	2017
Customer A	$ 2,114,610	2,073,638
Customer B	2,069,818	759,147
Customer C	710,856	647,791
Customer D	506,970	880,487
	$ 5,402,254	4,361,063

Stock Code:6462

EGIS TECHNOLOGY INC.

Parent Company Only Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017

Address: 2F, No. 360, Ruiguang Rd., Neihu Dist, Taipei City 114, Taiwan
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Independent Auditors' Report

To the Board of Directors of Egis Technology Inc.:

Opinion

We have audited the accompanying parent-company-only financial statements of Egis Technology Inc. (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent-company-only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 parent-company-only Financial Statements section of our report. We are independent of the Company 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 of most significance in our audit of the parent-company-only financial statements of the current period. These matters were addressed in the context of our audit of the parent-company-only 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 Company's parent-company-only financial statements for the year ended December 31, 2018 are stated as follows:

1. Impairment of goodwill

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

Description of key audit matter:

The inventory of the Company 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 Company'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 Company's accounting policies; performing a retrospective review of the Company'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.

Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent-company-only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent-company-only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent-company-only financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent-Company-Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent-company-only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent-company-only 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 parent-company-only financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent-company-only 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluated the overall presentation, structure and content of the parent-company-only financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtained sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this parent-company-only financial statements. We are responsible for the direction, supervision and performance of the 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 parent-company-only financial statements of the current period and are therefore the key audit matters. We described these matters in our auditors' 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 14, 2019

Notes to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Financial Statements Originally Issued in Chinese)

EGIS TECHNOLOGY INC.

Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (notes 6(a)(v))	$ 2,443,774	57	1,123,511	31
1110	Financial assets at fair value through profit or loss – current (notes 6(b)(v))	-	-	57,912	2
1170	Accounts receivable, net (notes 6(e)(r)(v))	614,327	14	729,289	20
1210	Other receivables from related parties (notes 6(v) and 7)	109	-	-	-
130X	Inventories (note 6(f))	555,919	13	699,553	19
1470	Prepayments and other current assets	77,130	2	64,581	2
1476	Other financial assets – current (notes 6(a)(v) and 8)	19,432	-	524,469	14
	Total current assets	3,710,691	86	3,199,315	88
	Non-current assets:				
1543	Financial assets carried at cost – non-current (notes 6(d)(v))	-	-	93,835	3
1517	Non-current financial assets at fair value through other comprehensive income (notes 6(c)(v))	41,033	1	-	-
1550	Investments accounted for using equity method (note 6(g))	68,710	2	34,442	1
1600	Property, plant and equipment (note 6(i))	37,531	1	33,111	1
1780	Intangible assets (note 6(j))	213,906	5	200,641	6
1840	Deferred income tax assets (note 6(n))	40,361	1	50,690	1
1960	Prepayments for investments (notes 6(h)(v))	186,593	4	-	-
1995	Other non-current assets(note 6(v))	7,898	-	9,531	-
	Total non-current assets	596,032	14	422,250	12
	Total assets	$ 4,306,723	100	3,621,565	100

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2100	Short-term borrowings (notes 6(k)(v)(w)(y) and 8)	$ 961,315	22	280,519	8
2170	Notes and accounts payable (notes 6(v)(w))	396,474	9	642,598	18
2220	Other payables to related parties (notes 6(v)(w) and 7)	5,998	-	-	-
2230	Current tax liabilities	110,442	3	127,774	3
2399	Other payables (notes 6(t)(v)(w))	439,332	10	306,592	8
	Total current liabilities	1,913,561	44	1,357,483	37
	Non-current liabilities:				
2570	Deferred income tax liabilities (note 6(n))	1,038	-	-	-
	Total liabilities	1,914,599	44	1,357,483	37
	Equity (notes 6(o)(p)):				
3110	Common stock	709,743	16	704,908	20
3140	Common stock subscribed	930	-	4,415	-
3200	Capital surplus	963,159	22	942,038	26
	Retained earnings:				
3310	Legal reserve	70,722	2	11,403	-
3350	Unappropriated earnings	1,005,824	23	695,814	19
	Other equity interest:				
3411	Exchange differences on translation of foreign financial statements	3,935	-	3,238	-
3420	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(52,802)	(1)	-	-
3491	Deferred compensation cost arising from issuance of restricted stock	(30,647)	-	(97,734)	(2)
3500	Treasury stock	(278,740)	(6)	-	-
	Total equity	2,392,124	56	2,264,082	63
	Total liabilities and equity	$ 4,306,723	100	3,621,565	100

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

EGIS TECHNOLOGY INC.

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017	
		Amount	%	Amount	%
4000	**Revenue (notes 6(r)(s))**	$ 5,909,333	100	4,731,908	100
5000	**Costs of revenue (notes 6(f)(i) and 12)**	(3,825,431)	(65)	(2,909,733)	(61)
	Gross profit	2,083,902	35	1,822,175	39
	Operating expenses (notes 6(e)(i)(j)(l)(m)(p)(t), 7 and 12):				
6100	Selling expenses	(271,985)	(5)	(343,275)	(7)
6200	Administrative expenses	(212,139)	(4)	(173,342)	(4)
6300	Research and development expenses	(871,541)	(14)	(521,702)	(11)
	Total operating expenses	(1,355,665)	(23)	(1,038,319)	(22)
	Operating income	728,237	12	783,856	17
	Non-operating income and loss:				
7010	Other income (notes 6(l)(u) and 7)	44,303	1	22,151	-
7020	Other gains and losses, net (notes 6(u)(w))	80,588	1	(53,724)	(1)
7050	Finance costs (note 6(u))	(9,917)	-	(9,206)	-
7060	Share of loss of associates and joint ventures accounted for using equity method, net (note 6(g))	(1,256)	-	(11,119)	-
	Total non-operating income and loss	113,718	2	(51,898)	(1)
	Income before taxes	841,955	14	731,958	16
7950	Income tax expense (note 6(n))	(171,164)	(3)	(138,767)	(3)
	Net income	670,791	11	593,191	13
	Other comprehensive income (loss):				
8310	**Items that will not be reclassified subsequently to profit or loss:**				
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income (notes 6(o)(v))	(53,977)	(1)	-	-
8349	Income tax related to items that will not be reclassified to profit or loss	-	-	-	-
		(53,977)	(1)	-	-
8360	**Items that may be reclassified subsequently to profit or loss:**				
8361	Exchange differences on translation of foreign operations (notes 6(g) and (o))	697	-	(2,608)	-
8399	Income tax related to items that may be reclassified to profit or loss	-	-	-	-
		697	-	(2,608)	-
	Other comprehensive income (loss), net	(53,280)	(1)	(2,608)	-
	Comprehensive income	$ 617,511	10	590,583	13
	Earnings per common share (in New Taiwan dollars) (note 6(q)) :				
9750	Basic earnings per share	$	9.62		8.50
9850	Diluted earnings per share	$	9.54		8.41

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

EGIS TECHNOLOGY INC.

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

				Retained earnings		Total other equity interest				
	Common stock	Common stock subscribed	Capital Surplus	Legal reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation cost arising from issuance of restricted stock	Treasury stock	Total equity
Balance at January 1, 2017	$ 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
Effects of retrospective application	-	-	-	-	-	-	1,175	-	-	1,175
Equity at beginning of period after adjustments	704,908	4,415	942,038	11,403	695,814	3,238	1,175	(97,734)	-	2,265,257
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	-	59,319	(59,319)	-	-	-	-	-
Cash dividends to shareholders	-	-	-	-	(301,462)	-	-	-	-	(301,462)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(278,740)	(278,740)
Retirement of restricted shares of stock issued to employees	(60)	-	60	-	-	-	-	-	-	-
Issuance of common stock from exercise of employee stock options	4,895	(3,485)	15,508	-	-	-	-	-	-	16,918
Compensation cost of employee stock options	-	-	2,810	-	-	-	-	-	-	2,810
Compensation cost arising from restricted shares of stock issued to employees	-	-	2,743	-	-	-	-	67,087	-	69,830
Net income in 2018	-	-	-	-	670,791	-	-	-	-	670,791
Other comprehensive income in 2018	-	-	-	-	-	697	(53,977)	-	-	(53,280)
Total comprehensive income in 2018	-	-	-	-	670,791	697	(53,977)	-	-	617,511
Balance at December 31, 2018	$ 709,743	930	963,159	70,722	1,005,824	3,935	(52,802)	(30,647)	(278,740)	2,392,124

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

EGIS TECHNOLOGY INC.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		2018	2017
Cash flows from operating activities:			
Income before income taxes	$	841,955	731,958
Adjustments for:			
Adjustments to reconcile profit (loss):			
Depreciation		14,890	13,735
Amortization		24,548	22,016
Expected credit loss (gain) / Provision for bad debt expense		(1,300)	24,560
Net loss (gain) on financial assets at fair value through profit or loss		755	(71)
Interest expense		9,917	9,206
Interest income		(41,583)	(15,405)
Share-based payments		72,640	49,569
Share of loss of subsidiaries and joint ventures accounted for using equity method		1,256	11,119
Loss on disposal of property, plan and equipment		-	12
Total adjustments to reconcile profit		81,123	114,741
Changes in operating assets and liabilities:			
Changes in operating assets:			
Accounts receivable		116,262	(346,152)
Other receivables from related parties		(109)	-
Inventories		143,634	(150,762)
Prepayments and other current assets		(13,791)	(17,575)
Total changes in operating assets		245,996	(514,489)
Changes in operating liabilities:			
Notes and accounts payable		(246,124)	174,479
Other payables to related parties		5,998	-
Other payables		128,468	104,127
Total changes in operating liabilities		(111,658)	278,606
Total changes in operating assets and liabilities		134,338	(235,883)
Cash provided by operations		1,057,416	610,816
Interest received		40,877	11,112
Interest paid		(9,501)	(9,115)
Income taxes paid		(172,031)	(11,626)
Net cash provided by operating activities		916,761	601,187

See accompanying notes to financial statements.

(English Translation of Financial Statements Issued in Chinese)

EGIS TECHNOLOGY INC.

Statements of Cash Flows (Continued)

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from investing activities:		
Purchase of financial assets at fair value through profit or loss	-	(57,841)
Proceeds from disposal of financial assets at fair value through profit or loss	57,157	-
Investment in financial assets carried at cost	-	(73,835)
Purchase of investments accounted for using equity method	(34,827)	(18,290)
Increase in prepayments for investments	(186,593)	-
Additions to property, plant and equipment	(20,376)	(27,893)
Proceeds from disposal of property, plant and equipment	1,066	-
Additions to intangible assets	(37,813)	(5,521)
Increase (decrease) in other financial assets	505,743	(221,424)
Increase (decrease) in refundable deposits	1,633	(4,783)
Net cash provided by (used in) investing activities	285,990	(409,587)
Cash flows from financing activities:		
Proceeds from short-term borrowings	3,575,763	1,929,570
Repayments of short-term borrowings	(2,894,967)	(1,901,744)
Cash dividends distributed to shareholders	(301,462)	-
Proceeds from exercise of employee stock options	16,918	65,860
Purchase of treasury stock	(278,740)	-
Net cash provided by financing activities	117,512	93,686
Net increase in cash and cash equivalents	1,320,263	285,286
Cash and cash equivalents at beginning of the period	1,123,511	838,225
Cash and cash equivalents at end of the period	$ 2,443,774	1,123,511

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

EGIS TECHNOLOGY INC.

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(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 is 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, 2008, 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 thousand 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 thousand 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 financial statements

The accompanying parent-company-only financial statements were authorized for issuance by the Board of Directors on March 14, 2019.

(Continued)

EGIS TECHNOLOGY INC.
Notes to the 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, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "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
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 Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of significant changes are as follows:

(i) 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 the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Company applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Company recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

(Continued)

EGIS TECHNOLOGY INC.
Notes to the Financial Statements

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sales of products, revenue is currently recognized based on the individual terms of each sales agreement when the related significant risks and rewards of ownership are transferred to the customers. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The above mentioned changes in accounting policy did not cause any significant adjustment on the financial statements.

(ii) 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.

The Company adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities.

EGIS TECHNOLOGY INC.
Notes to the Financial Statements

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below.

· Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

· The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

– 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.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as of January 1, 2018. There is no change in the categories and carrying amounts of financial liabilities.

	IAS39		IFRS9	
	Measurement categories	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Financial Assets				
Cash and cash equivalents	Loans and receivables (note 1)	$ 1,123,511	Amortized cost	$ 1,123,511
Open-end mutual fund	Designated as at FVTPL (note 2)	57,912	Mandatorily at FVTPL	57,912
Equity instruments	Carried at cost (note 3)	93,835	FVOCI	95,010
Accounts receivables	Loans and receivables (note 1)	729,289	Amortized cost	729,289
Other financial assets-current	Loans and receivables (note 1)	524,469	Amortized cost	524,469
Other non-current assets (refundable deposits)	Loans and receivables (note 1)	9,531	Amortized cost	9,531

EGIS TECHNOLOGY INC.
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Note1: Cash and cash equivalents, accounts receivable, other financial assets and other non-current assets (refundable deposits) that were classified as loans and receivables under IAS 39 are now classified at amortized cost. There is no material impact on the adoption of IFRS 9.

Note2: Under IAS 39, these investments were designated as at FVTPL. In accordance with IFRS 9, the cash flow characteristics for fund are not solely payments of principal and interest on the principal amount outstanding, therefore, they are classified as mandatorily measured at FVTPL.

Note3: These equity securities represent investments that the Company intends to hold for long term strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI, resulting in an increase of $1,175 thousand in those assets and other equity interest recognized on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Other equity adjustments
Fair value through other comprehensive income					
Beginning balance of measured at cost (IAS 39)	$ 93,835	-	-		-
Measured at cost to FVOCI	-	-	1,175		1,175
Total	$ 93,835	-	1,175	95,010	1,175

(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 Company present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(y).

(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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019

(Continued)

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New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements.

(i) IFRS 16"Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to initially apply IFRS 16 using the modified retrospective approach with no restatement of comparative information.

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When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- apply to exemption, and not to recognize a right-of-use asset and a lease liability to leases for which the lease term ends within 12 months of the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for its operating leases of offices and staff dormitory. The Company estimates that both the right-of-use assts and the lease liabilities to increase by $105,158 on January 1, 2019. The Company is not required to make any adjustments for leases where the Company is the intermediate lessor in a sub-lease.

The actual impacts of adopting the abovementioned new 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 International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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

4. Summary of significant accounting policies

The significant accounting policies presented in the parent-company-only financial statements are summarized as follows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the parent-company-only financial statements.

(a) Statement of compliance

The accompanying parent-company-only financial statements have been prepared in accordance with the " Regulations Governing the Preparation of Financial Reports by Securities Issuers" (the "Regulations").

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the parent-company-only financial statements have been prepared on a historical cost basis:

1) Financial assets meaured at fair value through profit or loss are measured at fair value; and

2) Fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment. The parent-company-only 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.

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(c) 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 parent-company-only financial statements at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the parent-company-only financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

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

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

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

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

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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 Company 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.

(e) 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.

(f) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). A regular way purchases or sales of financial assets is recognized and derecognized, as applicable, using trade date accounting.

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

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

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

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

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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2) Fair value through other comprehensive income (FVOCI)

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

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Fair value through profit or loss (FVTPL)

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

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

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

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

Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

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

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

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

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company' s procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial assets (policy applicable before January 1, 2018)

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. A regular way purchases or sales of financial assets is recognized or derecognized, as applicable, using trade date accounting .

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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.

(Continued)

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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 Company 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 Company' 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.

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 Company 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 parent-company-only 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.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company 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 Company 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 or losses.

(Continued)

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3) Derecognition of financial liabilities

The Company 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 parent-company-only statements of comprehensive income.

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Company 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.

(g) 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.

(h) Investments accounted for using equity method

The Company accounts the investee companies that it possesses control using the equity method. Net income, other comprehensive income, and shareholder' s equity in the financial reports of the Company, and the net income, other comprehensive income, and shareholder's equity that belongs to shareholders of the Company in the consolidated financial reports, should be the same.

The Company accounts the changes in equity only when its control over the equity transaction between proprietors is still present.

(i) Joint arrangements - Joint Venture

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

When assessing the classification of a joint arrangement, the Company shall consider the structure and legal form of the arrangement, the terms in the contractual arrangement, and other facts and circumstances.

Investments in joint ventures are accounted for using the equity method and are recognized initially at cost, plus, any transaction costs. The carrying amount of the investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) will be tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The parent-company-only financial statements include the Company's share of the profit or loss and other comprehensive income of joint venture after adjustments to align their accounting policies with those of the Company, from the date that joint control commences until the date that joint control ceases. The Company recognizes any changes, proportionately with the shareholding ratio under capital surplus, when a joint venturer's equity changes due to reasons other than the profit or loss and comprehensive income, which do not result in changes in the Company's ownership percentage of the joint venture.

Unrealized profits resulting from transactions between the Company and a joint venture are eliminated to the extent of the Company's interest in the joint venture. Unrealized losses on transactions with joint venture are eliminated in the same way, except to the extent that the underlying asset is impaired.

(j) 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 Company 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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(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- 3 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.

(k) Leases

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

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

(l) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

The residual 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)

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(m) 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 Company'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 Company 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 Company 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.

(n) Treasury stock

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

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

(o) Revenue recognition

(i) Revenue from contracts with customers (policy applicable from January 1, 2018)

1) Sale of goods

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

2) Financing components

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

(ii) Revenue recognition (policy applicable before January 1, 2018)

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.

1) 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.

(Continued)

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 Company recognizes the royalty revenue when the shipment report is obtained.

2) Services

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

3) Interest income

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

(p) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term employee benefits

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

(q) Share-based payment

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.

(r) 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.

(Continued)

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 Company is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and

(iii) Temporary differences arising from initial recognition of goodwill.

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

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

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

(s) 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 Company 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.

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(t) Earnings per share ("EPS")

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the parent-company-only 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 is adjusted for the effects of dilutive potential common shares. The Company' s dilutive potential common shares include employee stock options, restricted stock to employee and profit sharing for employees to be settled in the form of common stock.

(u) Operating segments

The Company discloses the operating segment information in the consolidated financial statements. Therefore, the Company does not disclose the operating segment information in the parent-company-only financial statements.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the parent-company-only financial statements, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(a) Impairment of goodwill

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

Refer to note 6(j) 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 Company uses judgment and estimates to determine the net realizable value of inventory at each reporting date.

Due to rapid technological changes, the Company 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(f) for more details of the valuation of inventories.

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6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 704	453
Bank deposits	495,739	378,850
Time deposits	1,855,186	625,168
Repurchase agreements－bond	92,145	119,040
	$ 2,443,774	1,123,511

As of December 31, 2018 and 2017, the time deposits with original maturities of more than three months amounted to $0 and $417,600, respectively, which were classified as other financial assets－current.

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

	December 31, 2018	December 31, 2017
Open-end mutual fund	$ -	57,912

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

	December 31, 2018
Equity instruments at fair value through other comprehensive income：	
Unlisted common shares (Please refer note 13(a).3)	$ 41,033

On January 1, 2018, the Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term for strategic purposes. These investments were classified as financial assets carried at cost –non-current on December 31, 2017.

No strategic investments were disposed in 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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(d) Financial assets carried at cost－non-current

	December 31, 2017
Unlisted common shares	$ 93,835

The aforementioned investments held by the Company were measured at amortized cost as of December 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Company management had determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018.

(e) Accounts receivable, net

	December 31, 2018	December 31, 2017
Accounts receivable	$ 616,524	753,849
Less：Allowance for impairment	(2,197)	(24,560)
	$ 614,327	729,289

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. The loss allowance provision as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 614,327	0.0001%	-
More than 180 days past due	2,197	100%	2,197
	$ 616,524		2,197

As of December 31, 2017, the Company applies the incurred loss model to consider the loss allowance provision of accounts receivable, and there are no accounts receivable that are past due but has not impaired on December 31, 2017.

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

	December 31, 2018	December 31, 2017 Individually assessed impairment	December 31, 2017 Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	$ 24,560	-	-
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	24,560		
Impairment losses recognized	-	24,560	-
Impairment losses reversed	(1,300)	-	-
Amounts written off	(22,708)	-	-
Foreign exchange losses	1,645	-	-
Balance on December 31, 2018 and 2017	$ 2,197	24,560	-

(f) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 17,249	155,197
Work in process	508,556	535,676
Finished goods	30,114	8,680
	$ 555,919	699,553

The amounts of inventories recognized as cost of revenue were as follows:

	2018	2017
Cost of inventories sold	$ 3,677,862	2,791,572
(Reversal of) write-down of inventories	(14,461)	71,535
Loss on scrap	121,256	15,307
Royalty cost	43,155	31,195
Others	(2,381)	124
	$ 3,825,431	2,909,733

The write down of inventories to net realizable value amounted to $71,535 in 2017; the reversal of write-down amounted to $14,461 due to the disposal of slow-moving inrentories in 2018. The write-down and reversal are included in costs of revenue.

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(g) Investments accounted for using equity method

	December 31, 2018	December 31, 2017
Subsidiaries	$ 42,747	34,442
Joint venture	25,963	-
	$ 68,710	34,442

The Company's share of profit (loss) of investments accounted for using equity method were as follows:

	2018	2017
Subsidiaries	$ (8,110)	(11,119)
Joint venture	6,854	-
	$ (1,256)	(11,119)

(i) Subsidiaries

Refer to the 2018 consolidated financial statements for more details.

(ii) Joint venture

The Company's financial information on its investment in individually insignificant joint venture accounted for using the equity method at the reporting date, was as follows. The financial information is included in the parent-company-only financial statements.

	December 31, 2018	December 31, 2017
Tyrafos Technologies Co., Limited	$ 25,963	-

	2018	2017
Attributable to the Company:		
Net income	$ 6,854	-
Other comprehensive loss	(408)	-
Comprehensive income	$ 6,446	-

(h) Prepayments for investments

As of December 31, 2018, the Company invested the amount of $186,593 to acquire the common shares of its investees (Igistec Co., Ltd., AIStorm Inc., and Sirius Wireless Pte. Ltd.) for the development techniques of its optical sensing and fingerprint identification.

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(i) Property, plant and equipment

	Tooling	Research and development equipment	Leasehold improvement	Other equipment	Total
Cost:					
Balance at January 1, 2018	$ 22,404	11,343	7,637	37,426	78,810
Additions	1,284	7,603	581	10,908	20,376
Disposals	(8,345)	(240)	(1,821)	(1,047)	(11,453)
Balance at December 31, 2018	$ 15,343	18,706	6,397	47,287	87,733
Balance at January 1, 2017	$ 25,354	9,471	1,268	32,407	68,500
Additions	109	2,695	6,369	14,980	24,153
Disposals	(3,059)	(823)	-	(9,961)	(13,843)
Balance at December 31, 2017	$ 22,404	11,343	7,637	37,426	78,810
Depreciation:					
Balance at January 1, 2018	$ 21,882	7,127	2,005	14,685	45,699
Depreciation	576	3,315	2,059	8,940	14,890
Disposals	(8,345)	(240)	(860)	(942)	(10,387)
Balance at December 31, 2018	$ 14,113	10,202	3,204	22,683	50,202
Balance at January 1, 2017	$ 21,496	5,931	658	17,710	45,795
Depreciation	3,434	2,019	1,347	6,935	13,735
Disposals	(3,048)	(823)	-	(9,960)	(13,831)
Balance at December 31, 2017	$ 21,882	7,127	2,005	14,685	45,699
Carrying amounts:					
Balance at December 31, 2018	$ 1,230	8,504	3,193	24,604	37,531
Balance at December 31, 2017	$ 522	4,216	5,632	22,741	33,111

(j) Intangible assets

	Goodwill	Patent	Technology	Computer software	Total
Costs:					
Balance at January 1, 2018	$ 106,827	25,714	84,726	14,873	232,140
Additions	-	-	-	37,813	37,813
Balance at December 31, 2018	$ 106,827	25,714	84,726	52,686	269,953
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	$ 106,827	25,714	84,726	14,873	232,140
Accumulated amortization and impairment loss:					
Balance at January 1, 2018	$ -	9,302	13,239	8,958	31,499
Amortization	-	7,023	10,591	6,934	24,548
Balance at December 31, 2018	$ -	16,325	23,830	15,892	56,047

(Continued)

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	Goodwill	Patent	Technology	Computer software	Total
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	$ -	9,302	13,239	8,958	31,499
Carrying amount:					
Balance at December 31, 2018	$ 106,827	9,389	60,896	36,794	213,906
Balance at December 31, 2017	$ 106,827	16,412	71,487	5,915	200,641

(i) Amortization

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

	2018	2017
Operating expenses	$ 24,548	22,016

(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:

	December 31, 2018	December 31, 2017
Biometric authentication IC sensor and its application	$ 106,827	106,827

At the end of each reporting period, the goodwill is tested annually for impairment. The recoverable amount of a CGU was determined based on the value in use. As of December 31, 2018 and 2017, no impairment loss was recognized for the biometric authentication IC sensor and its application based on the test result.

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

	December 31, 2018	December 31, 2017
Discount rates (before tax)	13.05 %	13.10 %
Revenue growth rates	10%～52%	5%～48%

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%.

(Continued)

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(k) Short-term borrowings

	December 31, 2018	December 31, 2017
Secured bank loans	$ 961,315	280,519
Unused credit facilities	$ 1,244,425	1,134,201
Interest rate	1.15%~3.04%	1.52%~2.73%

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

(l) Operating lease

Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018	December 31, 2017
Less than one year	$ 30,992	31,521
Between one year and five years	79,701	108,425
More than five years	-	5,619
	$ 110,693	145,565

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

For the years ended December 31, 2018 and 2017, rental expenses recognized in profit or loss in respect of operating leases were $29,911 and $19,766, respectively, and the sub-lease income recognized in other income in respect of leasing part of office space were $378 and $0, respectively.

(m) 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.

For the years ended December 31, 2018 and 2017, the Company recognized the pension expenses of $16,405 and $13,137, respectively, in relation to the defined contribution plans.

(n) Income taxes

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 commencing FY 2018.

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(i) Income tax expense

	2018	2017
Current income tax expense		
Current period	$ 165,191	135,538
Adjustments for prior years	(5,394)	-
	159,797	135,538
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	20,312	(26,434)
Adjustment in tax rate	(8,945)	-
Changes in tax losses	-	29,663
	11,367	3,229
Income tax expense	$ 171,164	138,767

In 2018 and 2017, 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 statements of comprehensive income for 2018 and 2017 were as follows:

	2018	2017
Income before income tax	$ 841,955	731,958
Income tax using the Company's statutory tax rate	$ 168,391	124,433
Adjustment in tax rate	(8,945)	-
Adjustments for prior years	(5,394)	-
Income tax credit	(14,476)	(6,222)
Change in unrecognized temporary differences	(1,026)	3,691
Withholding tax in foreign jurisdiction	11	4,632
Recognition of previously unrecognized tax losses	-	(1,266)
Undistributed earnings additional tax at 10%	23,241	10,262
Others	9,362	3,237
	$ 171,164	138,767

(Continued)

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(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

As of December 31, 2018 and 2017, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company 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:

Unrecognized deferred income tax assets

	December 31, 2018	December 31, 2017
Losses in foreign subsidiaries	$ 154,528	129,971
Deductible temporary differences-Technology	-	2,250
	$ 154,528	132,221

2) Recognized deferred income tax assets and liabilities

Deferred income tax assets:

	Tax losses carryforwards	Inventory provisions	Others	Total
Balance at January 1 , 2018	$ -	31,806	18,884	50,690
Recognized in profit or loss	-	2,721	(13,050)	(10,329)
Balance at December 31, 2018	$ -	34,527	5,834	40,361
Balance at January 1 , 2017	$ 29,663	19,645	5,896	55,204
Recognized in profit or loss	(29,663)	12,161	12,988	(4,514)
Balance at December 31, 2017	$ -	31,806	18,884	50,690

Deferred income tax liabilities:

	Unrealized foreign currency exchange gain
Balance at January 1 , 2018	$ -
Recognized in profit or loss	1,038
Balance at December 31, 2018	$ 1,038
Balance at January 1 , 2017	$ 1,285
Recognized in profit or loss	(1,285)
Balance at December 31, 2017	$ -

(iii) The Company's income tax returns for all fiscal years through 2016 were examined and approved by the R.O.C. income tax authorities.

(Continued)

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(o) Capital and other equity

(i) Common stock

As of December 31, 2018 and 2017, the Company's authorized shares of common stock, at $10 par value per share, consisted of 100,000 thousand shares, of which 70,974 thousand shares and 70,491 thousand shares, respectively, were issued and outstanding.

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

	Ordinary Shares	
	2018	**2017**
Balance at January 1	70,036	68,839
Exercise of employee stock options	490	1,080
Vested restricted shares of stock issued to employees	185	117
Purchase of treasury stock	(2,600)	-
Balance at December 31	**68,111**	**70,036**

As of December 31, 2018 and 2017, the related registration process had been completed except for 93 thousand shares and 442 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.

(ii) Capital surplus

	December 31, 2018	December 31, 2017
Paid-in capital in excess of par value	$ 881,352	817,200
Compensation cost of employee stock options	23,757	25,766
Restricted stock issued to employees	58,050	99,072
	$ **963,159**	**942,038**

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.

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(iii) Retained earnings and dividend policy

1) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to its shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

3) Earnings distribution

The Company's articles of incorporation stipulate that at least 10% of annual net income, after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance, together with the unappropriated earnings from the previous years, can be distributed as dividends to stockholders. The appropriation of earnings should be proposed by the Board of Directors and approved by the shareholders.

Earnings are distributed in consideration of long-term interest of its shareholders, operating and the overall economic environment and the Company' s long-term development and stability in its financial position. Earnings can be distributed by stock or cash, referring to the dividend ratio of others in the same industry and capital market, in which a cash dividend comprises at least 20% of the total dividend distribution.

The appropriation of 2017 earnings was resolved by the shareholder's meeting held on May 30, 2018, and the distribution to shareholders were as follows:

	2017	
	Dividends per share (NT$)	**Amount**
Dividends distributed to ordinary shareholders：		
Cash	$ 4.25	301,462

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

EGIS TECHNOLOGY INC.
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On March 14, 2019, the Company's Board of Directors resolved to appropriate the 2018 earnings. These earnings were appropriated as follows:

	2018	
	Dividends per share (NT$)	**Amount**
Dividends distributed to ordinary shareholders：		
Cash	$ 8.10	554,844

(iv) Treasury shares

In 2018, in accordance with Article 28-2 of the Securities and Exchange Act, the Company purchased 2,600 thousand of its own common shares for an aggregate amount of $278,740, in order to maintain and motivate its employees.

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

(v) Other equity

	Exchange differences on translation of foreign operations	**Deferred compensation cost arising from issuance of restricted stock**	**Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income**
Balance at January 1, 2018	$ 3,238	(97,734)	-
Effects of retrospective application	-	-	1,175
Balance at January 1, 2018 after adjustments	3,238	(97,734)	1,175
Foreign exchange difference arising from translation of foreign operations:			
Subsidiaries	1,105	-	-
Joint Venture	(408)	-	-
Deferred compensation cost	-	67,087	-
Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income	-	-	(53,977)
Balance at December 31, 2018	$ 3,935	(30,647)	(52,802)

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EGIS TECHNOLOGY INC.
Notes to the Financial Statements

		Exchange differences on translation of foreign operations	Deferred compensation cost arising from issuance of restricted stock	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income
Balance at January 1, 2017	$	5,846	-	-
Foreign exchange differences arising from translation of foreign operations:				
Subsidiaries		(2,608)	-	-
Deferred compensation cost		-	(97,734)	-
Balance at December 31, 2017	$	3,238	(97,734)	-

(p) Share-based payment

(i) A summary of the Company's stock option plans and related information is as follows:

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

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

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

The Company 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):

	2015	2014	
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

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EGIS TECHNOLOGY INC.
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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.

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

	2018		2017	
	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares
Outstanding, beginning of year	$ 112.76	643,000	95.80	1,511,000
Granted	-	-	-	-
Exercised	119.99	(141,000)	82.02	(803,000)
Forfeited	127.18	(4,000)	98.20	(65,000)
Outstanding, end of year	110.60	498,000	112.76	643,000
Exercisable, end of year	110.60	498,000	106.43	447,000

December 31, 2018				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/12	285,000	0.96	$ 98.20	285,000
2015	213,000	1.84	127.18	213,000
	498,000			498,000

December 31, 2017				
Year of grant	Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Number exercisable
2014/12	320,000	1.96	$ 98.20	320,000
2015	323,000	2.84	127.18	127,000
	643,000			447,000

(ii) Restricted stock

During the meeting on June 22, 2017, the Company's shareholders approved a resolution to issue 650,000 shares of restricted stock to full-time employees who conformed to certain requirements. The Company 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

(Continued)

EGIS TECHNOLOGY INC.
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rights of the Company's shareholders but are executed by the custodian. During the vesting period, the restricted shares of stock are entitled to any earnings distribution. The Company will recall and retire those shares from employees who do not meet the vesting conditions.

1) 2017 plan of issuance of restricted stock

Type	2017 condition 1	2017 condition 2
Granted date	2017.12.04	2017.12.04
Number of shares granted	350,000 shares	222,000 shares
Vested period	The restricted shares will be vested into 116,600, 116,700 and 116,700 shares at the year end of 2017, 2018, 2019, respectively, based on the individual performance of the employee.	The restricted shares will be vested into 74,000, 74,000 and 74,000 shares at the year end of 2018, 2019, 2020, respectively, based on the individual performance of the employee.

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

	2018	2017
Balance at January 1	572	-
Restricted stock issued	-	572
Forfeited	(9)	-
Balance at December 31	563	572
Accumulated vested shares	(302)	(117)
Unvested shares	**261**	**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

	2018	2017
Employee stock options	$ 2,810	14,993
Restricted stock	69,830	34,576
	$ 72,640	**49,569**

(Continued)

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Notes to the Financial Statements

(q) Earnings per share ("EPS")

(i) Basic earnings per share

	2018	2017
Net income attributable to the shareholders of the Company	$ 670,791	593,191
Weighted-average number of ordinary shares outstanding (in thousands)	69,710	69,814
Basic earnings per share (in New Taiwan dollars)	**$ 9.62**	**8.50**

(ii) Diluted earnings per share

	2018	2017
Net income attributable to the shareholders of the Company	$ 670,791	593,191
Weighted-average number of ordinary shares outstanding (in thousands)	69,710	69,814
Effect of dilutive potential common stock:		
Stock options	91	575
Employees compensation	271	179
Restricted stock	218	-
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	70,290	70,568
Diluted earnings per share (in New Taiwan dollars)	**$ 9.54**	**8.41**

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	2018
Primary geographical markets:	
Taiwan	$ 9,551
Asia	5,899,782
	$ 5,909,333
Major products/ services line:	
Biometric authentication IC sensor and its application	$ 5,903,424
Data security and its application	4,723
Non-recurring engineering service revenue	1,186
	$ 5,909,333

For details on revenue for the year ended December 31, 2017, please refer to note 6(s).

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(ii) Contract balances

		December 31, 2018	January 1, 2018
Accounts recivable	$	616,524	753,849
Less: Allowance for impairment		(2,197)	(24,560)
Total	$	614,327	729,289

For details on accounts receivable and allowance for impairment, please refer to note 6(e).

(s) Revenue

		2017
Revenue from sale of goods and royalty revenue	$	4,728,540
Revenue from service provided		3,368
	$	4,731,908

(t) 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, 2018 and 2017, the Company accrued its remuneration to employees amounting to $46,308 and $38,934, respectively, and its remuneration to directors amounting to $8,972 and $7,787, 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 as operating expenses. The differences between the aforementioned accrued remuneration and the amounts approved by the Board of Directors were $0 and $1, repectively, which shall be accounted for as changes in accounting estimates. The related information would be available at the Market Observation Post System website.

(u) Non-operating income and loss

(i) Other income

		2018	2017
Interest income	$	41,583	15,405
Sub-lease income		378	-
Grants for research and development		-	1,880
Others		2,342	4,866
	$	44,303	22,151

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Notes to the Financial Statements

(ii) Other gains and losses

	2018	2017
Losses on disposal of property, plant and equipment	$ -	(11)
Foreign exchange gains (losses), net	84,643	(52,997)
Net gain (loss) on financial assets measured at fair value through profit or loss	(755)	71
Others	(3,300)	(787)
	$ 80,588	(53,724)

(iii) Finance costs

	2018	2017
Interest expense on bank loans	$ (9,917)	(9,206)

(v) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss	$ -	57,912
Financial assets at fair value through other comprehensive income	41,033	-
Financial assets measured at amortized cost (Loans and receivables):		
Cash and cash equivalents	2,443,774	1,123,511
Accounts receivable	614,327	729,289
Other receivable from related parties	109	-
Other financial assets－current	19,432	524,469
Refundable deposits	7,898	9,531
	3,085,540	2,386,800
Available-for-sale financial assets :		
Financial assets carried at cost	-	93,835
Total	$ 3,126,573	2,538,547

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2) Financial liabilities

		December 31, 2018	December 31, 2017
Financial liabilities measured at amortized cost:			
Short-term borrowings	$	961,315	280,519
Notes and accounts payable		396,474	642,598
Other payables to related parties		5,998	-
Accrued expenses		251,485	168,846
	$	1,615,272	1,091,963

(ii) Information on fair value

1) Financial instruments not measured at fair value

The Company 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.

2) Financial instruments measured at fair value

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value on a recurring basis. The table below analyzes the financial instruments measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The different levels have been defined as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	December 31, 2018				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Non-current financial assets at fair value through other comprehensive income:					
Unlisted common shares	$ 41,033	-	-	41,033	41,033

(Continued)

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	December 31, 2017				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Open-end mutual fund	$ 57,912	57,912	-	-	57,912

There are no transfers between fair value levels for the years ended December 31, 2018 and 2017. Reconciliation of Level 3 fair values was as follows:

	2018
Opening balance	$ 95,010
Loss recognized in other comprehensive income	(53,977)
Ending Balance	$ 41,033

3) Valuation techniques and assumptions used in fair value measurement

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

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

The fair value of unlisted common shares is estimated by using the market approach and is determined by reference to valuation of similar companies, recent financing activities, market conditions and other economic indicators. The significant unobservable input is the liquidity discount. Since the possible changes in liquidity discount did not cause any significant potential impact on the financial statements, therefore, the quantitative information need not be disclosed.

(w) Financial risk management

The Company is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Company has disclosed the information on exposure to the aforementioned risks and the Company'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 Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's operations.

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The Company' 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 Company if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Company' 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 Company' 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 Company' s finance department. The Company only deals with banks, other external parties, corporate organizations and financial institutions with good credit rating. The Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

The Company 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, 2018 and 2017, 81% and 85%, 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 Company will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Company 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, 2018 and 2017, the Company had unused credit facilities of $1,244,425 and $1,134,201, respectively.

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

	Contractual cash flows	Within 1 year	1-5 years
December 31, 2018			
Short-term borrowings carrying floating interest rates	$ 961,972	961,972	-
Notes and accounts payable	396,474	396,474	-
Other payables to related parties	5,998	5,998	-
Accrued expenses	251,485	251,485	-
	$ 1,615,929	1,615,929	-
December 31, 2017			
Short-term borrowings carrying floating interest rates	$ 280,741	280,741	-
Notes and accounts payable	642,598	642,598	-
Accrued expenses	168,846	168,846	-
	$ 1,092,185	1,092,185	-

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The Company 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 Company'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 Company is exposed to foreign currency risk on sales, purchases and bank loans that are denominated in a currency other than the functional currency. The foreign currency used in these transactions is mainly the US dollar (USD). The Company management continuously controls the net exposure in an acceptable level.

a) Exposure to foreign currency risk

The carrying amounts of the Company's significant monetary assets and liabilities denominated in a currency, other than the functional currency, was as follow:

	December 31, 2018			December 31, 2017		
	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)	Foreign currency (in thousands)	Exchange rate	TWD (in thousands)
Financial assets						
USD	$ 96,508	30.715	2,964,257	73,652	29.76	2,191,884
Financial liabilities						
USD	18,284	30.715	561,578	34,763	29.76	1,034,547

b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of cash and cash equivalents, accounts receivables, notes and accounts payable and bank loans that are denominated in a currency other than the functional currency. As of December 31, 2018 and 2017, a 1% depreciation of the TWD against the USD would have increased the Company's income before tax for the years ended December 31, 2018 and 2017, by $24,027, and $11,574, 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) is as follows:

	2018		2017	
	Foreign exchange gains (losses)	Foreign Exchange rate	Foreign exchange gains (losses)	Foreign Exchange rate
Financial assets				
USD:TWD	$ 91,340	30.715	(92,489)	29.76
Financial liabilities				
USD:TWD	(8,612)	30.715	37,726	29.76

2) Interest rate risk

The Company' s short-term borrowings carried floating interest rates. To manage the interest rate risk, the Company periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Company 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, 2018 and 2017, would have been $9,613 and 2,805, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

3) Other market price risk

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

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

(x) Capital management

In consideration of industry dynamics and future development, as well as external environment factors, the Company 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.

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(y) Financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	January 1,2018	Cash flows	Non-cash changes	December 31, 2018
Short-term borrowings	$ 280,519	680,796	-	961,315

7. Related-party transactions

(a) Names and relationship with related parities

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

Name of related party	Relationship with the Company
Egis Inc.	The Company's subsidiary
Egis Technology (Japan) Inc.	The Company's subsidiary
Egis Tec USA Inc.	The Company's subsidiary
Egis Technology Korea Inc.	The Company's subsidiary
Tyrafos Technologies Co., Limited, Taiwan Branch	Branch of the joint venture
Yinscorp Ltd.	Subsidiary of the joint venture

(b) Significant transactions with related parties

(i) Research and development expenses

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

	2018	2017
Subsidiaries:		
Egis Tec USA Inc.	$ 47,031	50,823
Egis Technology Korea Inc.	16,474	-
Joint venture:		
Tyrafos Technologies Co., Limited, Taiwan Branch	58,493	-
Yinscorp Ltd.	24,952	-
	$ 146,950	50,823

(ii) Leases

The joint venture leased an office building from the Company, where the rental amount is based on the market price in the adjacent area. For the year ended December 31, 2018, the rental income was $313, and the related receivables were collected.

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(iii) Receivables

Account	Related-party categories	December 31, 2018	December 31, 2017
Other receivable	Subsidiaries	$ 109	-

(iv) Payables

Account	Related party categories	December 31, 2018	December 31, 2017
Other paybles	Subsidiaries	$ 5,998	-

(v) Property transactions

In 2018, the Company sold leasehold improvements and other equipments to its subsidiary. The total disposal price was $1,066 and the related receivable were collected.

(vi) Guarantee

As of December 31, 2017, the Company' s credit facilities from financial institutions amounting to $715,920 were guaranteed by the Company's chairman, Mr. Steve Ro.

(c) Compensation for key management personnel

	2018	2017
Short-term employee benefits	$ 86,025	68,331
Post-employment benefits	765	647
Share-based payments	43,101	36,556
	$ 129,891	105,534

Refer to note 6(p) for information on share-based payment.

8. Pledged assets

Assets	Pledged to secure	December 31, 2018	December 31, 2017
Other financial assets-current (time deposits)	Deposit for purchase fulfillment	$ 10,000	10,000
Other financial assets-current (time deposits)	Credit facilities	-	89,280
		$ 10,000	99,280

9. Significant commitments and contingencies

As of December 31, 2018 and 2017, the Company had issued promissory notes amounting to $2,205,740 and $1,414,720, respectively, as collaterals for obtaining credit facilities from financial institutions.

10. Significant loss from casualty: None.

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11. Significant subsequent events: None.

12. Others

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

By function / By item	2018 Cost of sales	2018 Operating expenses	2018 Total	2017 Cost of sales	2017 Operating expenses	2017 Total
Employee benefits:						
Salaries	-	489,491	489,491	-	371,355	371,355
Labor and health insurance	-	18,556	18,556	-	14,714	14,714
Pension cost	-	16,405	16,405	-	13,137	13,137
Remuneration of directors	-	9,360	9,360	-	8,057	8,057
Others	-	22,318	22,318	-	18,498	18,498
Depreciation	1,983	12,907	14,890	1,514	12,221	13,735
Amortization	-	24,548	24,548	-	22,016	22,016

In 2018 and 2017, the average employees of the Company were 247 and 201, respectively, including 5 non-employee directors for both years.

13. Additional disclosures

(a) Information on significant transactions:

The followings were the information on significant transactions required by the " Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company for the year ended December 31, 2018:

(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 Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Note
The Company	Gingy Technology Inc.		Financial assets at fair value through other comprehensive income	859	10,788	3.51 %	10,788	
The Company	THEIA LIMITED		Financial assets at fair value through other comprehensive income	100,000	30,245	11.20 %	30,245	
The Company	Integrated Digital Technologies, Inc.		Financial assets at fair value through other comprehensive income	4,000	-	13.96 %	-	

(Continued)

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(iv) Marketable securities for which the accumulated purchase or sale amounts exceed $300 million or 20% of the paid-in capital: None.

(v) Acquisition of real estate which exceeds $300 million or 20% of the paid-in capital: None.

(vi) Disposal of real estate which exceeds $300 million or 20% of the paid-in capital: None.

(vii) Total purchases from and sales to related parties which exceed $100 million or 20% of the paid-in capital: None.

(viii) Receivables from related parties which exceed $100 million or 20% of the paid-in capital: None.

(ix) Information about derivative instrument transactions: None.

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the year ended December 31, 2018 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

				Original Investment Amount		Balance as of December 31, 2018					
Investor	Investee	Location	Main Businesses and Products	December 31, 2018	December 31, 2017	Shares (in thousands)	Percentage of Ownership	Carrying Value	Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,487	(16)	(16)	Parent/subsidiary
The Company	Egis Technology (Japan) Inc.	Japan	Sale of data security software and biometric authentication software and hardware	83,213	83,213	5,840	100.00 %	531	(9,076)	(9,076)	Parent/subsidiary
The Company	Egis Tec USA Inc.	USA	Technology development	31,260	31,260	1,000	100.00 %	14,183	658	658	Parent/subsidiary
The Company	Egis Technology Korea Inc.	Korea	Customer service, business promotion and technical support	18,233	2,923	20	100.00 %	18,546	324	324	Parent/subsidiary
The Company	Tyrafos Technologies Co., Limited	Hong Kong	Technology development	19,517	-	5,265	65.00 %	25,963	8,588	6,854	Joint venture

(c) Information on investments in Mainland China: None.

14. Segment information

The Company has disclosed the operating segments information in the consolidated financial statements.

Egis Technology Inc.

Statement of Cash and Cash Equivalents

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount
Cash on hand	including New Taiwan Dollars and Chinese Yuan, etc.	$ 704
Bank deposits	including US$12,973 thousands, CNY$2,492 thousands and NT$86,118 thousands	495,739
Time deposits	including US$60,400 thousands	1,855,186
Repurchase agreements - bond	including US$3,000 thousands	92,145
		$ 2,443,774

Note：Foreign currency deposits were translated at the spot exchange rate on December 31, 2018 as follows:

Foreign Currency	Exchange rate
USD	30.715
CNY	4.472

(Continued)

Egis Technology Inc.

Statement of Accounts Receivable

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Client Name		Amount
Client A	$	228,243
Client B		151,727
Client C		116,932
Client D		61,330
Others (the amount of individual client does not exceed 5% of the account balance.)		58,292
		616,524
Less：Allowance for impairment		(2,197)
	$	614,327

Statement of Inventories

Item	Description	Amount		
			Carrying Value (Note)	Net realizable value
Raw materials	Wafer	$	17,249	18,165
Work in process	Wafer testing and IC packaging		508,556	580,297
Finished goods	Fingerprint authentication IC		30,114	39,537
Total		$	555,919	637,999

Note：Provision of inventory obsolescence has been deducted.

(Continued)

Egis Technology Inc.

Statement of prepayments and Other Current Assets

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Prepaid expenses		$ 49,208	
Input UAT		20,901	
Temporary payments		7,021	
		$ 77,130	

Statement of Other Financial Assets-Current

Item	Description	Amount	Note
Restricted bank deposits		$ 10,000	
Other receivables		9,432	
		$ 19,432	

(Continued)

Egis Technology Inc.

Statement of Changes in Investments Accounted for Using Equity Method

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Name of investees	Beginning balance Shares	Beginning balance Amount	Addition Shares	Addition Amount	Decrease Shares	Decrease Amount	Investmnet income (loss)	Translation adjustment	Ending balance Shares	Ending balance %	Ending balance Amount	Net equity value Unit price (in Dollars)	Net equity value Total amount	Collateral
Egis Technology (Japan) Inc.	5,840,000	$ 9,287	-	-	-	-	(9,076)	320	5,840,000	100.00 %	531	-	531	Nil
Egis Inc.	25,848,000	9,204	-	-	-	-	(16)	299	25,848,000	100.00 %	9,487	-	9,487	Nil
Egis Tec USA Inc.	1,000,000	12,955	-	-	-	-	658	571	1,000,000	100.00 %	14,184	-	14,184	Nil
Egis Technology Korea Inc.	10,000	2,996	10,000	15,310	-	-	324	(85)	20,000	100.00 %	18,545	-	18,545	Nil
Tyrafos Technologies Co., Limited	-	-	5,265,000	19,517	-	-	6,854	(408)	5,265,000	65.00 %	25,963	-	25,963	Nil
		$ 34,442		34,827		-	(1,256)	697			68,710		68,710	

(Continued)

Egis Technology Inc.

Statement of Short-Term Borrowings

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Type	Creditor	Ending balance	Term	Interest rate	Credit facilities	Collateral (promissory notes)
Working Capital loan	Mega Bank	$ 86,250	2018.11.30~2019.2.28		$ 350,000	$ 350,000
Working Capital loan	Mega Bank	160,000	2018.12.24~2019.6.22		350,000	As above
Working Capital loan	DBS Bank	140,000	2018.11.27~2019.2.27		300,000	300,000
Working Capital loan	DBS Bank	100,000	2018.11.30~2019.2.27		300,000	As above
Working Capital loan	Taipei Fubon Bank	199,340	2018.12.28~2019.3.28		215,005	215,005
Working Capital loan	CTBC Bank	80,777	2018.10.31~2019.1.31		215,005	215,005
Working Capital loan	KGI Bank	63,403	2018.11.30~2019.2.27		150,000	150,000
Working Capital loan	Bank SinoPac	131,545	2018.10.31~2019.1.31		153,575	153,575
		$ 961,315		1.15%~3.04%		

Statement of Notes and Accounts Payable

Vendor name	Amount
Vendor A	$ 296,605
Vendor B	73,313
Vendor C	9,192
Others (the amount of individual vendor does not exceed 5% of the account balance)	17,364
	$ 396,474

Egis Technology Inc.

Statement of Other Payables

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Accrued salaries and bonus	$ 164,938
Accrued sales allowances	89,455
Accrued research and testing expenses	58,354
Accrued commission expenses	36,544
Accrued outsourcing R&D expenses	32,488
Others (the amount of each item does not exceed 5% of the account balance)	57,553
	$ 439,332

Statement of Revenue

For the year ended December 31, 2018

Item	Amount
Products：	
Biometric authentication IC sensor and its application	$ 5,903,424
Data security and its application	4,723
Non-recurring engineering service revenue	1,186
	$ 5,909,333

(Continued)

Egis Technology Inc.

Statement of Cost of Revenue

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount
Raw materials, beginning of year	$ 157,694
Add: Purchase of raw materials	2,896,206
Less: Transferred to R&D expenses	1,637
Cost of sales on raw materials	3,976
Raw materials, end of year	20,523
Loss on scrap of raw materials	2,182
Raw materials used	3,025,582
Outsourced manufacturing cost	756,034
Manufacturing cost	3,781,616
Add: Work in process, beginning of year	633,506
Less: Transferred to R&D expenses	5,520
Cost of sales on work in process	1,753,695
Loss on scrap of work in process	52,178
Work in process, end of year	643,593
Cost of goods manufactured	1,960,136
Add: Finished goods, beginning of year	95,448
Less: Transferred to R&D expenses	4,060
Loss on scrap of finished goods	66,896
Finished goods, end of year	64,437
Cost of sales	1,920,191
Cost of sales on raw materials and work in process	1,757,671
Software royalties	43,155
Reversal of write-down of inventories	(14,461)
Loss on scrap of inventories	121,256
Others	(2,381)
Cost of revenue	$ 3,825,431

(Continued)

Egis Technology Inc.

Statement of Operating Expenses

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Selling expenses	Administrative expenses	Research and development expenses
Wages and salaries	$ 88,361	161,127	249,363
Pension	1,277	1,441	13,687
Depreciation	721	6,735	5,451
Amortization	-	1,107	23,441
Entertainment expenses	22,397	3,336	6,206
Travelling expenses	22,354	3,405	59,266
Commission expense	104,991	-	-
Technical service fee	-	-	200,051
Research and experimental cost	-	-	206,200
Others (the amount of each item does not exceed 5% of the account balance)	31,884	34,988	107,876
	$ 271,985	212,139	871,541

For details on statement of changes in property, plant and equipment, please refer to note 6(i).
For details on statement of changes in intangible assets, please refer to note 6(j).
For details on statement of deferred income tax assets, please refer to note 6(n).
For details on statement of other income, please refer to note 6(u).
For details on statement of other gains and losses, please refer to note 6(u).
For details on statement of finance costs, please refer to note 6(u).