

EGIS TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Organization and business	9
(2) Authorization of the consolidated financial statements	9
(3) Application of new and revised accounting standards and interpretations	10~16
(4) Summary of significant accounting policies	16~32
(5) Critical accounting judgments and key sources of estimation uncertainty	32~33
(6) Significant account disclosures	33~55
(7) Related-party transactions	55~56
(8) Pledged assets	56
(9) Significant commitments and contingencies	57
(10) Significant loss from casualty	57
(11) Significant subsequent events	57
(12) Others	57
(13) Additional disclosures	
(a) Information on significant transactions	57~58
(b) Information on investees	59
(c) Information on investments in Mainland China	59
(14) Segment information	59~60

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



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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.

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		December 31, 2017	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (notes 6(o)(v))	\$ 2,473,863	57	1,153,711	31	2100	280,519
1110 Financial assets at fair value through profit or loss – current (notes 6(b)(v))	-	-	57,912	2	2170	642,598
1170 Accounts receivable, net (notes 6(e)(r)(v))	614,327	14	729,289	20	2230	128,889
130X Inventories (note 6(f))	555,919	13	699,553	19	2399	311,580
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		1,363,586
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		3,238
Total assets	\$ 4,308,536	100	\$ 3,627,668	100		\$ 4,308,536
Liabilities and Equity						
Current liabilities:						
Short-term borrowings (notes 6(k)(v)(w)(y) and 8)					2100	280,519
Notes and accounts payable (notes 6(v)(w))					2170	642,598
Current tax liabilities					2230	128,889
Other payables (notes 6(o)(v)(w))					2399	311,580
Total current liabilities						1,363,586
Non-current liabilities:						
Deferred income tax liabilities (note 6(n))					2570	
Total liabilities	1,038	-	1,916,412	44		1,363,586
Equity (notes 6(o)(p)):						
Common stock					3110	709,743
Common stock subscribed					3140	930
Capital surplus					3200	4,415
Retained earnings:						
Legal reserve					3310	70,722
Unappropriated earnings					3350	1,005,824
Other equity interest:						
Exchange differences on translation of foreign financial statements					3411	3,935
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income					3420	(52,802)
Deferred compensation cost arising from issuance of restricted stock					3491	(30,647)
Treasury stock					3500	(278,740)
Total equity						(97,734)
Total liabilities and equity						\$ 4,308,536

(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							Total equity		
	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
Balance at January 1, 2017	\$ 688,393	7,180	742,625	-	114,026	5,846	-	-	-	1,538,070
Appropriation and distribution of retained earnings:	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	11,403	(11,403)	-	-	-	-	65,860
Issuance of common stock from exercise of employee stock options	10,795	(2,765)	57,830	-	-	-	-	-	-	-
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	-	(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	-	697	(53,977)	-	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	-	(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)**

	<u>2018</u>	<u>2017</u>
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	<u>73,536</u>	<u>104,171</u>
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	<u>246,133</u>	<u>(514,670)</u>
Changes in operating liabilities:		
Notes and accounts payable	(246,124)	174,479
Other payables	130,648	105,308
Total changes in operating liabilities	<u>(115,476)</u>	<u>279,787</u>
Total changes in operating assets and liabilities	<u>130,657</u>	<u>(234,883)</u>
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	<u>905,187</u>	<u>592,793</u>

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)

	<u>2018</u>	<u>2017</u>
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	<u>296,361</u>	<u>(390,024)</u>
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	<u>117,512</u>	<u>93,686</u>
Effects of foreign exchange rate changes	<u>1,092</u>	<u>(2,539)</u>
Net increase in cash and cash equivalents	1,320,152	293,916
Cash and cash equivalents at beginning of the period	<u>1,153,711</u>	<u>859,795</u>
Cash and cash equivalents at end of the period	<u>\$ 2,473,863</u>	<u>1,153,711</u>

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.

(Continued)

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.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated 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 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.

(Continued)

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	<u>\$ 93,835</u>	<u>-</u>	<u>1,175</u>	<u>95,010</u>	<u>1,175</u>

(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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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.

(Continued)

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

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

(Continued)

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

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
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 measured 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.

(Continued)

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

(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 :

Name of Investor	Name of Subsidiary	Principal Activity	Shareholding	
			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.

(Continued)

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

(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.

(Continued)

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

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.

(Continued)

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

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.

(Continued)

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

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.

(Continued)

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

1) Financial assets at fair value through profit or loss

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

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

2) Loans and receivables

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

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

3) Available-for-sale financial assets

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

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

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

4) Impairment of financial assets

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

(Continued)

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

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

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

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

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

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

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

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

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

(Continued)

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

5) Derecognition of financial assets

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

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

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

(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.

(Continued)

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(h) Inventories

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

(i) 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.

(Continued)

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

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)

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

(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.

(Continued)

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

(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.

(Continued)

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

(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.

(Continued)

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

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)

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

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

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

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

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

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

(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)

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

(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.

(Continued)

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

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	<u>92,145</u>	<u>119,040</u>
	<u>\$ 2,473,863</u>	<u>1,153,711</u>

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	<u>\$ -</u>	<u>57,912</u>

(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)	<u>\$ 41,033</u>

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)

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

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

	December 31, 2017
Unlisted common shares	<u>\$ 93,835</u>

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	<u>(2,197)</u>	<u>(24,560)</u>
	<u>\$ 614,327</u>	<u>729,289</u>

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	<u>2,197</u>	100%	<u>2,197</u>
	<u>\$ 616,524</u>		<u>2,197</u>

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.

(Continued)

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

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	
		<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>
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	<u>\$ 2,197</u>	<u>24,560</u>	<u>-</u>

(f) Inventories

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

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

	<u>2018</u>	<u>2017</u>
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
	<u>\$ 3,825,431</u>	<u>2,909,733</u>

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.

(Continued)

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

(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

(Continued)

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

	<u>Tooling</u>	<u>Research and development equipment</u>	<u>Leasehold improvement</u>	<u>Other equipment</u>	<u>Total</u>
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	<u>\$ 21,882</u>	<u>7,127</u>	<u>2,117</u>	<u>15,045</u>	<u>46,171</u>
Carrying amounts:					
Balance at December 31, 2018	<u>\$ 1,230</u>	<u>9,172</u>	<u>3,994</u>	<u>25,041</u>	<u>39,437</u>
Balance at December 31, 2017	<u>\$ 522</u>	<u>4,216</u>	<u>5,795</u>	<u>23,225</u>	<u>33,758</u>

(j) Intangible assets

	<u>Goodwill</u>	<u>Patent</u>	<u>Technology</u>	<u>Computer software</u>	<u>Total</u>
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	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>53,516</u>	<u>270,783</u>
Balance at January 1, 2017	\$ 106,827	25,714	84,726	9,352	226,619
Additions	-	-	-	5,521	5,521
Balance at December 31, 2017	<u>\$ 106,827</u>	<u>25,714</u>	<u>84,726</u>	<u>14,873</u>	<u>232,140</u>
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	<u>\$ -</u>	<u>16,325</u>	<u>23,830</u>	<u>15,933</u>	<u>56,088</u>
Balance at January 1, 2017	\$ -	2,279	2,648	4,556	9,483
Amortization	-	7,023	10,591	4,402	22,016
Balance at December 31, 2017	<u>\$ -</u>	<u>9,302</u>	<u>13,239</u>	<u>8,958</u>	<u>31,499</u>
Carrying amount:					
Balance at December 31, 2018	<u>\$ 106,827</u>	<u>9,389</u>	<u>60,896</u>	<u>37,583</u>	<u>214,695</u>
Balance at December 31, 2017	<u>\$ 106,827</u>	<u>16,412</u>	<u>71,487</u>	<u>5,915</u>	<u>200,641</u>

(i) Amortization

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

	<u>2018</u>	<u>2017</u>
Operating expenses	<u>\$ 24,589</u>	<u>22,016</u>

(Continued)

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

(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	<u>\$ 106,827</u>	<u>106,827</u>

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	<u>\$ 961,315</u>	<u>280,519</u>
Unused credit facilities	<u>\$ 1,244,425</u>	<u>1,134,201</u>
Interest rate	<u>1.15%~3.04%</u>	<u>1.52%~2.73%</u>

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
	<u>\$ 120,393</u>	<u>147,093</u>

(Continued)

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

The Group leases several office space, staff dormitory 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

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

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

(Continued)

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

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:

	<u>2018</u>	<u>2017</u>
Income before income tax	\$ <u>848,096</u>	<u>735,886</u>
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
	<u>\$ 177,305</u>	<u>142,695</u>

(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:

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

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:

	<u>Tax losses carryforwards</u>	<u>Inventory provisions</u>	<u>Others</u>	<u>Total</u>
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	<u>\$ -</u>	<u>34,527</u>	<u>5,834</u>	<u>40,361</u>
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	<u>\$ -</u>	<u>31,806</u>	<u>18,884</u>	<u>50,690</u>

(Continued)

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

Deferred income tax liabilities:

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

(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 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	<u>(2,600)</u>	<u>-</u>
Balance at December 31	<u>68,111</u>	<u>70,036</u>

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.

(Continued)

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

(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	<u>58,050</u>	<u>99,072</u>
	<u>\$ 963,159</u>	<u>942,038</u>

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

(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)

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

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

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.

(Continued)

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

(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	<u>\$ 3,935</u>	<u>(30,647)</u>	<u>(52,802)</u>
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	<u>\$ 3,238</u>	<u>(97,734)</u>	<u>-</u>

(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.

(Continued)

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

The Group adopted the binomial option pricing model to calculate the fair value of the stock options at the grant date, and the assumptions adopted in the valuation model were as follows (Amounts in New Taiwan dollars/share):

	<u>2015</u>	<u>2014</u>	
Grant date	2015.11.03	2014.12.18	2014.3.14
Fair value at grant date	\$54.458	36.486	24.27
Binominal parameters:			
Share price at grant date	\$129.5	98.69	33.20
Exercise price	\$127.18	98.20	10.00
Expected volatility (%)	49.48~49.93	44.70~44.77	47.92~47.96
Expected life	4.0~4.1 years	3.9~4.0 years	3.7~3.8 years
Expected dividend field rate (%)	-	-	-
Risk-free interest rate (%)	0.76	1.06~1.08	1.01~1.02

Expected volatility is based on the weighted average of historical volatility, and it is adjusted when there is additional market information on the volatility. The expected life is in accordance with the stock option plans. The risk-free interest rates are determined based on the yield to maturity of zero-coupon government bonds with similar maturity dates.

Informations in employee stock option plans were as follows (Amounts in New Taiwan dollars):

	<u>2018</u>		<u>2017</u>	
	<u>Weighted- average exercise price</u>	<u>Number of shares</u>	<u>Weighted- average exercise price</u>	<u>Number of shares</u>
Outstanding, beginning of year	\$ 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	<u>498,000</u>	112.76	<u>643,000</u>
Exercisable, end of year	110.60	<u>498,000</u>	106.43	<u>447,000</u>

December 31, 2018

<u>Year of grant</u>	<u>Number outstanding</u>	<u>Weighted-average remaining contractual years</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable</u>
2014/12	285,000	0.96	\$ 98.20	285,000
2015	213,000	1.84	127.18	213,000
	<u>498,000</u>			<u>498,000</u>

(Continued)

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

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

	<u>2018</u>	<u>2017</u>
Employee stock options	\$ 2,810	14,993
Restricted stock	<u>69,830</u>	<u>34,576</u>
	<u>\$ 72,640</u>	<u>49,569</u>

(q) Earnings per share ("EPS")

(i) Basic earnings per share

	<u>2018</u>	<u>2017</u>
Net income attributable to the shareholders of the Company	\$ <u>670,791</u>	<u>593,191</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>69,710</u>	<u>69,814</u>
Basic earnings per share (in New Taiwan dollars)	<u>\$ 9.62</u>	<u>8.50</u>

(ii) Diluted earnings per share

	<u>2018</u>	<u>2017</u>
Net income attributable to the shareholders of the Company	\$ <u>670,791</u>	<u>593,191</u>
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	<u>218</u>	<u>-</u>
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	<u>70,290</u>	<u>70,568</u>
Diluted earnings per share (in New Taiwan dollars)	<u>\$ 9.54</u>	<u>8.41</u>

(Continued)

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 details 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.

(Continued)

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, respectively, 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

	<u>2018</u>	<u>2017</u>
Interest income	\$ 41,767	15,477
Sub-lease income	378	-
Grants for research and development	-	1,880
Others	<u>2,423</u>	<u>4,866</u>
	<u>\$ 44,568</u>	<u>22,223</u>

(ii) Other gains and losses

	<u>2018</u>	<u>2017</u>
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	<u>(3,301)</u>	<u>(787)</u>
	<u>\$ 80,414</u>	<u>(53,774)</u>

(iii) Finance costs

	<u>2018</u>	<u>2017</u>
Interest expense on bank loans	\$ <u>(9,917)</u>	<u>(9,206)</u>

(Continued)

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

(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
	<u>3,126,924</u>	<u>2,426,191</u>
Available-for-sale financial assets :		
Financial assets carried at cost	-	93,835
Total	<u>\$ 3,167,957</u>	<u>2,577,938</u>

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
	<u>\$ 1,610,705</u>	<u>1,092,334</u>

(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.

(Continued)

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 Amount	Fair Value			Total
		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 Amount	Fair Value			Total
		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.

(Continued)

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

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

The fair value of unlisted common shares is estimated by using the market approach and is determined by reference to valuations of similar companies, recent financing activities, market conditions and other economic indicators. 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.

(Continued)

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.

	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>
December 31, 2018			
Short-term borrowings carrying floating interest rates \$	961,972	961,972	-
Notes and accounts payable	396,474	396,474	-
Accrued expenses	<u>252,916</u>	<u>252,916</u>	<u>-</u>
	<u>\$ 1,611,362</u>	<u>1,611,362</u>	<u>-</u>
December 31, 2017			
Short-term borrowings carrying floating interest rates	280,741	280,741	-
Notes and accounts payable	642,598	642,598	-
Accrued expenses	<u>169,217</u>	<u>169,217</u>	<u>-</u>
	<u>\$ 1,092,556</u>	<u>1,092,556</u>	<u>-</u>

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.

(Continued)

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

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)
<u>Financial assets</u>						
USD	\$ 96,587	30.715	2,966,670	73,652	29.76	2,191,884
<u>Financial liabilities</u>						
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
<u>Financial assets</u>				
USD:TWD	\$ 91,196	30.715	(92,489)	29.76
<u>Financial liabilities</u>				
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.

(Continued)

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

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 targets 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:

	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>Non-cash changes</u>	<u>December 31, 2018</u>
Short-term borrowings	\$ <u>280,519</u>	<u>680,796</u>	<u>-</u>	<u>961,315</u>

7. Related-party transactions

(a) Names and relationship with related parties

The following are entities that have had transactions with related party during the reporting period.

<u>Name of related party</u>	<u>Relationship with the Group</u>
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:

	<u>2018</u>	<u>2017</u>
Joint venture:		
Tyrafos Technologies Co., Limited, Taiwan Branch	\$ 58,493	-
Yinscorp Ltd.	<u>24,952</u>	<u>-</u>
	<u>\$ 83,445</u>	<u>-</u>

(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

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 94,810	74,448
Post-employment benefits	765	647
Share-based payments	<u>43,101</u>	<u>36,556</u>
	<u>\$ 138,676</u>	<u>111,651</u>

Refer to note 6(p) for information on share-based payment.

8. Pledged assets

<u>Assets</u>	<u>Pledged to secure</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
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	<u>472</u>	<u>-</u>
		<u>\$ 10,472</u>	<u>99,280</u>

(Continued)

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 item	By function	2018			2017		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Gingy Technology Inc.	-	Financial assets at fair value through other comprehensive income	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.

(Continued)

EGIS TECHNOLOGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Information on investees:

Names, locations, and related information of investees over which the Company exercises significant influence for the years ended December 31, 2018 (excluding investee companies in Mainland China):

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2018			Maximum Ownership during 2018		Net Income (Losses) of the Investee	Share of Profit / (Losses) of Investee	Note
				December 31, 2018	December 31, 2017	Shares (in thousands)	Percentage of Ownership	Carrying Value	Shares (in thousands)	Percentage of Ownership			
The Company	Egis Inc.	Cayman Islands	Investment and holding activity	678,340	678,340	25,848	100.00 %	9,487	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
	<u>\$ 5,909,333</u>	<u>4,731,908</u>

(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.

<u>Region</u>	<u>2018</u>	<u>2017</u>
Revenues from external customers are detailed below:		
Asia	\$ 5,899,782	4,699,941
Taiwan	<u>9,551</u>	<u>31,967</u>
	<u>\$ 5,909,333</u>	<u>4,731,908</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Non-current assets:		
Taiwan	\$ 251,437	233,752
Others	<u>2,695</u>	<u>647</u>
	<u>\$ 254,132</u>	<u>234,399</u>

Non-current assets include property, plant and equipment and intangible assets, and do not include financial instruments and deferred income tax assets.

(d) Major customer information

	<u>2018</u>	<u>2017</u>
Customer A	\$ 2,114,610	2,073,638
Customer B	2,069,818	759,147
Customer C	710,856	647,791
Customer D	<u>506,970</u>	<u>880,487</u>
	<u>\$ 5,402,254</u>	<u>4,361,063</u>